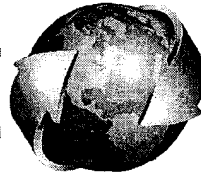


EXHIBIT 117

*FCIC INTERVIEW OF
JOHN MONGELLUZZO*

*AUDIO TRANSCRIPTION
September 29, 2010*

Ellen Grauer
COURT REPORTING
Co. LLC



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Page 1	Page 3
<p>1 -----x</p> <p>2</p> <p>3</p> <p>4 FCIC INTERVIEW OF</p> <p>5 JOHN MONGELLUZZO</p> <p>6</p> <p>7 Interview Date: September 29, 2010</p> <p>8</p> <p>9 -----x</p> <p>10</p> <p>11</p> <p>12</p> <p>13 AUDIO TRANSCRIPTION by Rita Persichetty,</p> <p>14 a Notary Public of the State of New York.</p> <p>15</p> <p>16</p> <p>17</p> <p>18</p> <p>19</p> <p>20</p> <p>21</p> <p>22</p> <p>23 ELLEN GRAUER COURT REPORTING CO. LLC</p> <p>24 126 East 56th Street, Fifth Floor</p> <p>25 New York, New York 10022</p> <p>212-750-6434</p> <p>REF: 98008</p>	<p>1 AUDIO TRANSCRIPTION</p> <p>2 MR. BORGERS: Tom Borgers, B as in</p> <p>3 boy, O R G E R S.</p> <p>4 MR. KREBS: Tom Krebs, FCIC. K R E B</p> <p>5 S.</p> <p>6 MR. HINKLEY: Bob Hinkley, FCIC. H I</p> <p>7 N K L E Y.</p> <p>8 MS. CAREY: Jessica Carey, Paul</p> <p>9 Weiss, C A R E Y.</p> <p>10 MR. HAIMS: Joel Haims, H A I M S,</p> <p>11 counsel for Mr. Mongelluzzo from Morrison</p> <p>12 & Foerster.</p> <p>13 UNIDENTIFIED SPEAKER: (Inaudible)</p> <p>14 Lerner and JP Morgan internal counsel.</p> <p>15 MR. PATTERSON: Paul Patterson, Paul</p> <p>16 Weiss, P A T E I (sic) (inaudible).</p> <p>17 MR. MONGELLUZZO: And John</p> <p>18 Mongelluzzo, M O N G E L L U Z Z O.</p> <p>19 MR. CUNICELLI: Okay.</p> <p>20 Mr. Mongelluzzo, in the way of background,</p> <p>21 the FCIC was established by statute public</p> <p>22 law 111-21 and signed into law by the</p> <p>23 president. It is bipartisan and consists</p> <p>24 of ten commissioners. It is charged with</p> <p>25 examining the causes of the financial</p>
Page 2	Page 4
<p>1 AUDIO TRANSCRIPTION</p> <p>2 P R O C E E D I N G S</p> <p>3 MR. CUNICELLI: This is Victor</p> <p>4 Cunicelli of the Financial Crisis Inquiry</p> <p>5 Commission. Today's date is September 29,</p> <p>6 2010. The time is approximately</p> <p>7 10:30 a.m. eastern standard.</p> <p>8 I am accompanied by Tom Borgers, Tom</p> <p>9 Krebs, Bob Hinkley of the commission, and</p> <p>10 Miss Carey and Mr. Mongelluzzo on the</p> <p>11 line.</p> <p>12 We are at the offices of the FCIC for</p> <p>13 the interview of Mr. Mongelluzzo. The</p> <p>14 interview will be recorded with the</p> <p>15 consent of Mr. Mongelluzzo.</p> <p>16 Mr. Mongelluzzo, could I get your</p> <p>17 verbal ascent for the record?</p> <p>18 MR. MONGELLUZZO: Yes, that's fine.</p> <p>19 MR. CUNICELLI: Thank you.</p> <p>20 Will everyone please state your full</p> <p>21 name and affiliation for the record, and</p> <p>22 please spell your last name for the</p> <p>23 transcriptionist. We'll start on FCIC's</p> <p>24 side.</p> <p>25 Cunicelli is C U N I C E L L I.</p>	<p>1 AUDIO TRANSCRIPTION</p> <p>2 crisis and collapse or near collapse of</p> <p>3 major domestic financial institutions.</p> <p>4 The commission is charged with</p> <p>5 composing reported findings to the</p> <p>6 President and Congress by December 15,</p> <p>7 2010. The commission may compel</p> <p>8 attendance and testimony of witnesses and</p> <p>9 production of records. I can provide a</p> <p>10 copy of the statute by which the</p> <p>11 commission was formed if you so desire.</p> <p>12 Please be advised that the FCIC is an</p> <p>13 agency of the United States, and FCIC</p> <p>14 staff are federal employees under the</p> <p>15 egest of 18, United States code Section</p> <p>16 1001 concerning false statements.</p> <p>17 With that, sir, just in the way of</p> <p>18 housekeeping, please make sure that all</p> <p>19 your responses are verbal and audible so</p> <p>20 that we obtain a quality transcript, and</p> <p>21 I'll turn it over to Mr. Borgers.</p> <p>22 MR. BORGERS: Thank you.</p> <p>23 Mr. Mongelluzzo, could you just start</p> <p>24 with a brief professional background, your</p> <p>25 resume starting with your college.</p>

AUDIO TRANSCRIPTION

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(1) Page 1 - Page 4

<p style="text-align: right;">Page 5</p> <p>1 AUDIO TRANSCRIPTION</p> <p>2 education?</p> <p>3 MR. MONGELLUZZO: What do you mean my</p> <p>4 college education, so starting with my</p> <p>5 college education, I attended Passaic</p> <p>6 County Community College, achieved an</p> <p>7 associate's degree there, and then</p> <p>8 attended NYU and received a bachelor's</p> <p>9 degree there.</p> <p>10 MR. BORGERS: Okay. And if you then</p> <p>11 go through your professional career,</p> <p>12 employment background with dates?</p> <p>13 MR. MONGELLUZZO: I'm not going to be</p> <p>14 able to provide specific dates.</p> <p>15 MR. KREBS: Just do the best you can</p> <p>16 do, Mr. Mongelluzzo.</p> <p>17 MR. BORGERS: Year is fine.</p> <p>18 MR. MONGELLUZZO: I'm not sure I can</p> <p>19 do the year. So my first employment would</p> <p>20 have been Midlantic National Bank,</p> <p>21 approximate year would have been 1984 or</p> <p>22 '85. From there, I worked at National</p> <p>23 Community Bank, that would have been</p> <p>24 probably 1987, '88.</p> <p>25 From there, I worked for Chase</p>	<p style="text-align: right;">Page 7</p> <p>1 AUDIO TRANSCRIPTION</p> <p>2 function?</p> <p>3 MR. MONGELLUZZO: So at GE Capital,</p> <p>4 the initial period of time I was there, I</p> <p>5 was working on residential underwriting.</p> <p>6 I'm not sure what title I would have held</p> <p>7 at that point in time. So predominantly</p> <p>8 all underwriting of residential mortgages.</p> <p>9 When I went to PMI insurance, also in</p> <p>10 a similar role, underwriting of</p> <p>11 residential mortgages. When I went back</p> <p>12 to GE Capital, it was in a role more</p> <p>13 related to the purchases of bulk packages</p> <p>14 of mortgages, so reviewing those for</p> <p>15 quality assurance purposes in terms of</p> <p>16 purchasing both mortgage packages.</p> <p>17 At Bear Stearns, I was responsible</p> <p>18 for due diligence for the purchases of</p> <p>19 mortgage packages, and at GMAC, I am</p> <p>20 predominantly responsible for rep and</p> <p>21 warrant repurchases.</p> <p>22 MR. BORGERS: What was that, I didn't</p> <p>23 get the -- at GMAC?</p> <p>24 MR. MONGELLUZZO: For --</p> <p>25 predominantly responsible for rep and</p>
<p style="text-align: right;">Page 6</p> <p>1 AUDIO TRANSCRIPTION</p> <p>2 Manhattan. That would have taken us to</p> <p>3 1990 or '91. From there, I worked for the</p> <p>4 State of New Jersey. After working for</p> <p>5 the State of New Jersey, that probably</p> <p>6 took us to '93/'94. From there, I went to</p> <p>7 work for PHH Mortgage. That would have</p> <p>8 taken us to maybe '96ish. From there, I</p> <p>9 went to work for GE Capital. I was with</p> <p>10 GE Capital until '98/'99, went to work for</p> <p>11 PMI Mortgage Insurance for about a year</p> <p>12 and a half and then returned to GE</p> <p>13 Capital.</p> <p>14 And then from GE Capital, I went to</p> <p>15 work for Bear Stearns in 2004. Was</p> <p>16 employed with Bear Stearns/JPMorgan until</p> <p>17 2008, and I've been employed with GMAC</p> <p>18 since 2009.</p> <p>19 MR. BORGERS: Thank you. Can you</p> <p>20 just focus on the GE Capital to Bear</p> <p>21 Stearns for now?</p> <p>22 MR. MONGELLUZZO: Sure. What</p> <p>23 specifically would you like?</p> <p>24 MR. BORGERS: What your roles were,</p> <p>25 what your positions, your title, your</p>	<p style="text-align: right;">Page 8</p> <p>1 AUDIO TRANSCRIPTION</p> <p>2 warrant repurchases.</p> <p>3 MR. BORGERS: Can you -- on the Bear</p> <p>4 Stearns part on the due diligence, can you</p> <p>5 just give us some detailed background</p> <p>6 about what was entailed with your due</p> <p>7 diligence?</p> <p>8 MR. MONGELLUZZO: Could you be more</p> <p>9 specific?</p> <p>10 MR. KREBS: Let's try it this way:</p> <p>11 When Bear Stearns would purchase pools of</p> <p>12 mortgages, what documents would Bear</p> <p>13 Stearns take delivery of?</p> <p>14 MR. MONGELLUZZO: When you say which</p> <p>15 documents would they take delivery of,</p> <p>16 it's strictly in regards to the due</p> <p>17 diligence?</p> <p>18 MR. KREBS: Well, in connection with</p> <p>19 the purchase of pools of mortgages for</p> <p>20 which due diligence had been performed;</p> <p>21 for example, you would receive the</p> <p>22 original note with a complete chain of</p> <p>23 endorsements, correct?</p> <p>24 MR. MONGELLUZZO: That is correct.</p> <p>25 MR. KREBS: You would receive the</p>

<p style="text-align: right;">Page 9</p> <p>1 AUDIO TRANSCRIPTION 2 original recorded mortgage or 3 certificate -- or certified copy of that 4 mortgage with evidence of recording; is 5 that right? 6 MR. MONGELLUZZO: Typically that 7 would be correct, yes. 8 MR. KREBS: All right. Then you 9 would get originals or certified copies 10 with evidence recording of all intervening 11 assignments, correct? 12 MR. MONGELLUZZO: That is typically 13 correct. 14 MR. KREBS: How often would you get 15 intervening assignments? 16 MR. MONGELLUZZO: I have no idea. I 17 couldn't tell you. 18 MR. KREBS: All right. You would 19 also receive original recertified copies 20 of powers of attorney, if applicable, with 21 evidences of the recordings of those; is 22 that correct? 23 MR. MONGELLUZZO: That's correct. 24 MR. KREBS: You would also receive 25 the original or a certified copy of the</p>	<p style="text-align: right;">Page 11</p> <p>1 AUDIO TRANSCRIPTION 2 receive the security agreement, title 3 mortgage or equivalent document executed 4 in connection with a mortgage, correct? 5 MR. MONGELLUZZO: Generally that's 6 correct. 7 MR. KREBS: All right. Now, what is 8 MERS? 9 MR. MONGELLUZZO: MERS is a 10 registration system for tracking ownership 11 of mortgages. 12 MR. KREBS: Now, generally there was 13 a statement, and I'm quoting from 14 documents, if the mortgage is not recorded 15 in the name of MERS, you would receive an 16 original assignment in recordable form 17 from the seller in blank or as designated 18 by the purchaser; is that correct? 19 MR. MONGELLUZZO: Generally speaking, 20 that would be correct. 21 MR. KREBS: All right. Tell me the 22 functions that MERS performed in 23 connection with securitization of 24 mortgages, please? 25 MR. MONGELLUZZO: I didn't have</p>
<p style="text-align: right;">Page 10</p> <p>1 AUDIO TRANSCRIPTION 2 modifications and assumptions with respect 3 to that mortgage; is that right? 4 MR. MONGELLUZZO: Yes. 5 MR. KREBS: You would also receive 6 the original or certified copy of title 7 insurance policy or an attorney's opinion 8 of title, accompanied by a title abstract; 9 is that correct? 10 MR. MONGELLUZZO: Could you say that 11 again? 12 MR. KREBS: You would receive an 13 original or certified copy of title 14 insurance policy or an attorney's opinion 15 of title accompanied by the title 16 abstract? 17 MR. MONGELLUZZO: I think generally 18 speaking that would be correct. 19 MR. KREBS: Very good. 20 You would also receive the original 21 of any guarantee executed in connection 22 with the mortgage note, correct? 23 MR. MONGELLUZZO: Generally that's 24 correct. 25 MR. KREBS: And you would also</p>	<p style="text-align: right;">Pag</p> <p>1 AUDIO TRANSCRIPTION 2 anything to do with that function, so I 3 couldn't speak to that. 4 MR. KREBS: All right. Well, let me 5 ask you this: You received these 6 documents or someone under your control 7 received these documents, what would you 8 do with them? 9 MR. MONGELLUZZO: We wouldn't receive 10 the documents. We would hire a document 11 custodian to receive all of that 12 documentation. They would maintain the 13 custody of those documents. 14 MR. KREBS: Very good. 15 Typically that probably would have 16 been -- who was the document custodian for 17 the mortgages received and pool purchases 18 while you were employed at Bear Stearns? 19 MR. MONGELLUZZO: I believe there 20 were multiple custodians used. 21 MR. KREBS: What happened to those 22 mortgages once they were purchased by Bear 23 Stearns? 24 MR. MONGELLUZZO: Which mortgages 25 specifically are you asking?</p>

<p style="text-align: right;">Page 13</p> <p>1 AUDIO TRANSCRIPTION</p> <p>2 MR. KREBS: Let's focus on the pool</p> <p>3 of purchases of mortgages to the exclusion</p> <p>4 of individual mortgages, although I</p> <p>5 understand pools (audio cuts out).</p> <p>6 MR. MONGELLUZZO: I couldn't tell</p> <p>7 you.</p> <p>8 MR. KREBS: All right. You would</p> <p>9 also receive original and certified copies</p> <p>10 of powers of attorney, if applicable, with</p> <p>11 evidences of the recordings of those; is</p> <p>12 that correct?</p> <p>13 MR. MONGELLUZZO: That's correct.</p> <p>14 MR. KREBS: You would also receive</p> <p>15 the original or a certified copy of the</p> <p>16 modifications and assumptions with respect</p> <p>17 to that mortgage; is that right?</p> <p>18 MR. MONGELLUZZO: Yes.</p> <p>19 MR. KREBS: You would also receive</p> <p>20 the original or certified copy of title</p> <p>21 insurance policy or an attorney's opinion</p> <p>22 of title accompanied by a title abstract;</p> <p>23 is that correct?</p> <p>24 MR. MONGELLUZZO: Would you say that</p> <p>25 again?</p>	<p style="text-align: right;">Page 15</p> <p>1 AUDIO TRANSCRIPTION</p> <p>2 certainly could have been securitized,</p> <p>3 some of them could have been sold, and I'm</p> <p>4 sure that there were probably other exit</p> <p>5 strategies that I may or may not have been</p> <p>6 aware of.</p> <p>7 MR. KREBS: Some of them might have</p> <p>8 been held as investments?</p> <p>9 MR. MONGELLUZZO: That's quite</p> <p>10 possible.</p> <p>11 MR. KREBS: Well, let's focus, if we</p> <p>12 can, on the securitizations.</p> <p>13 Do you know what happened to the</p> <p>14 mortgages that were earmarked or destined</p> <p>15 to be securitized, what would happen with</p> <p>16 all this paper?</p> <p>17 MR. MONGELLUZZO: With which paper?</p> <p>18 MR. KREBS: The paper that I just</p> <p>19 described, the documents received in</p> <p>20 connection with the purchase of pools, the</p> <p>21 delivery of the documents.</p> <p>22 MR. MONGELLUZZO: So you're talking</p> <p>23 about the collateral package that would</p> <p>24 have been held at the custodian?</p> <p>25 MR. KREBS: Correct.</p>
<p style="text-align: right;">Page 14</p> <p>1 AUDIO TRANSCRIPTION</p> <p>2 MR. KREBS: You would receive an</p> <p>3 original or a certified copy of title</p> <p>4 insurance policy to the exclusion of</p> <p>5 individual mortgages, although I</p> <p>6 understand pools might or might not have</p> <p>7 been moved over into securitizations, but</p> <p>8 what I'm trying to get at is your</p> <p>9 understanding of what happened to the</p> <p>10 mortgages that you -- on which you</p> <p>11 performed due diligence while engaged at</p> <p>12 Bear Stearns?</p> <p>13 MR. MONGELLUZZO: Let me ask -- let</p> <p>14 me see if I understand the question.</p> <p>15 MR. KREBS: Sure, it's important that</p> <p>16 you understand the question. And go right</p> <p>17 ahead, please, sir.</p> <p>18 MR. MONGELLUZZO: So your question is</p> <p>19 for the pools of loans that we do due</p> <p>20 diligence, what was the final disposition</p> <p>21 of those loans?</p> <p>22 MR. KREBS: If you know, yes.</p> <p>23 MR. MONGELLUZZO: They would have</p> <p>24 been varied, I don't think there was a one</p> <p>25 standard answer for that, so some of them</p>	<p style="text-align: right;">Page 16</p> <p>1 AUDIO TRANSCRIPTION</p> <p>2 MR. MONGELLUZZO: My understanding</p> <p>3 is, in a security, there's a custodian</p> <p>4 named for the trustee, and the trustee</p> <p>5 continues to direct that custodian to hold</p> <p>6 onto that documentation, so it all -- all</p> <p>7 of the documentation remains at the</p> <p>8 custodian.</p> <p>9 MR. KREBS: Was the -- were those</p> <p>10 documents or were title to those mortgages</p> <p>11 transferred to another entity after they</p> <p>12 were received at the custodian?</p> <p>13 MR. MONGELLUZZO: I don't know. I</p> <p>14 would assume that depending upon what the</p> <p>15 disposition of the particular loan was,</p> <p>16 would direct where the custodial package</p> <p>17 was then held.</p> <p>18 MR. KREBS: All right. Let's go</p> <p>19 back, if we can, to MERS. What -- again,</p> <p>20 what is MERS?</p> <p>21 MR. MONGELLUZZO: To the best of my</p> <p>22 understanding, MERS is a repository that</p> <p>23 tracks ownership of mortgages.</p> <p>24 MR. KREBS: What was it -- what was</p> <p>25 MERS' relationship, if you know, with the</p>

Page 17

1 AUDIO TRANSCRIPTION
2 depository or the custodian?
3 MR. MONGELLUZZO: I don't know.
4 MR. KREBS: Okay. You understood,
5 did you not, that the mortgages to be
6 acquired on the pools for which you
7 performed due diligence at Bear Stearns
8 were oftentimes earmarked for
9 securitizations, correct?
10 MR. MONGELLUZZO: You ask that
11 question again, please.
12 MR. KREBS: You understood that the
13 mortgages in the pools that you were
14 acquiring oftentimes were earmarked for
15 securitizations?
16 MR. MONGELLUZZO: Yes, I understood
17 that we would securitize some of the loans
18 that we purchased.
19 MR. KREBS: How were you noticed or
20 notified that a particular pool was
21 ultimately destined to be securitized?
22 MR. MONGELLUZZO: I wasn't. So
23 there's a point of time where we were
24 performing due diligence, I didn't
25 necessarily know what the exit strategy

Page 18

1 AUDIO TRANSCRIPTION
2 for the asset was.
3 MR. KREBS: Okay. I understand.
4 That's fair.
5 Let me ask you this, then: Let's
6 focus a little bit on the due diligence.
7 What materials would you receive prior to
8 making a bid on a pool of loans?
9 MR. MONGELLUZZO: I was not involved
10 in the process of making bids on pools of
11 loans, that's a trading function.
12 MR. KREBS: So the traders made that
13 determination, insofar as you know?
14 MR. MONGELLUZZO: Insofar as I know,
15 correct.
16 MR. KREBS: All right. Who would
17 have been responsible for notifying you
18 that there was a pool of loans for which
19 due diligence had to be performed on
20 behalf of Bear Stearns?
21 MR. MONGELLUZZO: The trade desk
22 would notify us that there was a pool of
23 loans that they had agreed to purchase.
24 MR. KREBS: What, if anything, would
25 they provide you in connection with the

Page 19

1 AUDIO TRANSCRIPTION
2 due diligence to be performed on that pool
3 of loans?
4 MR. MONGELLUZZO: Generally speaking,
5 they would provide us with a data tape of
6 the pool of loans. They would provide us
7 with any bid stipulations that were done
8 and generally contacts for the
9 counterparty.
10 MR. KREBS: What is a bid stip?
11 MR. MONGELLUZZO: Bid stipulations
12 are something that the trade desk would
13 put together outlining the details of the
14 trade.
15 MR. KREBS: I mean when you say
16 outlining the details of the trade, were
17 they issues relating to the loan portfolio
18 or are they only talking about price and
19 issues of that nature?
20 MR. MONGELLUZZO: I'm not sure I
21 understand your question.
22 MR. KREBS: I understand that you
23 said -- you've told us what your belief of
24 bid stipulations were. What I'm trying to get at
25 is, did the bid stipulations contemplate the

Pag

1 AUDIO TRANSCRIPTION
2 quality of the loans that you would be
3 reviewing?
4 MR. MONGELLUZZO: I'm not sure how to
5 answer the question for you.
6 MR. KREBS: All right.
7 MR. MONGELLUZZO: So, you know,
8 I'm -- I'm not sure -- I'm not sure what
9 you're asking, did the bid stipulations indicate
10 what the quality of the loans were.
11 MR. KREBS: I mean -- go ahead and
12 tell us everything that you can recall
13 that a bid stipulation contained.
14 MR. MONGELLUZZO: Bid stipulations would
15 typically contain what the price was, who
16 the counterparty was, what type of product
17 it was, if there were particular
18 restrictions on things that couldn't be in
19 the loan pool, for one particular example,
20 you know, that they couldn't be loans with
21 a FICO score below X, so it would outline
22 those sort of details.
23 MR. KREBS: And when you received
24 that information, what did you do with it?
25 MR. MONGELLUZZO: It became part of

<p style="text-align: right;">Page 21</p> <p>1 AUDIO TRANSCRIPTION 2 our file and it was what we used to kick 3 off the due diligence. 4 MR. BORGER: This is Tom Borgers. 5 Question, at this time, would the trader 6 tell you the sample size? 7 MR. MONGELLUZZO: No. 8 MR. BORGER: When would the trader 9 tell you the size of the sample? 10 MR. MONGELLUZZO: The trader didn't 11 necessarily tell us the size of the 12 sample. It wasn't a directive from the 13 trade desk necessarily in terms of what 14 the sample size was. 15 MR. BORGER: Who directed you on the 16 sample size? 17 MR. MONGELLUZZO: I think it was more 18 of a standing practice in terms of what we 19 did for sample sizes, so it wasn't 20 necessarily individually directed for each 21 individual pool. 22 MR. BORGER: So for subprime loans, 23 what was your sample size, what was the 24 range of sample size? 25 MR. MONGELLUZZO: Well, it would</p>	<p style="text-align: right;">Page 23</p> <p>1 AUDIO TRANSCRIPTION 2 due diligence. 3 MR. BORGER: And were they large 4 originators? 5 MR. MONGELLUZZO: Yes. 6 MR. BORGER: And could you give us 7 some examples of those originators? Were 8 they -- was it Countrywide? 9 MR. MONGELLUZZO: Yeah, we didn't 10 purchase -- to my knowledge, we didn't 11 purchase much subprime from Countrywide. 12 The two names that come to mind are 13 Amerquest and Fremont. 14 MR. BORGER: And what size sample 15 would you do for Amerquest? 16 MR. MONGELLUZZO: Well, for those 17 particular transactions, because we had 18 purchased pools of loans from those firms 19 where we did do 100 percent diligence, but 20 for those particular transactions where we 21 were doing a single seller transaction, I 22 believe that we did 25 percent. 23 MR. BORGER: So for Amerquest, 24 25 percent in -- around 2004, and for 25 Fremont?</p>
<p style="text-align: right;">Page 22</p> <p>1 AUDIO TRANSCRIPTION 2 depend upon the time frame that you're 3 speaking of, but generally speaking, for 4 subprime pools, we did 100 percent due 5 diligence, we looked at all of the loans. 6 MR. BORGER: So in 2004, 7 100 percent? 8 MR. MONGELLUZZO: Generally speaking, 9 there were some exceptions to that, but 10 the vast majority we would have done 11 100 percent for. 12 MR. BORGER: And who were the 13 exceptions for? 14 MR. MONGELLUZZO: I can't tell you 15 which year the exceptions were made, but 16 there were several, and I would say 17 several being something less than ten, to 18 my knowledge, where we did single seller 19 deals. 20 We were purchasing a large pool of 21 loans and were going to securitize those 22 loans strictly from that seller. They 23 wouldn't be in an aggregated 24 securitization, and so those particular 25 transactions we did less than 100 percent</p>	<p style="text-align: right;">Page 24</p> <p>1 AUDIO TRANSCRIPTION 2 MR. MONGELLUZZO: Well, again, I said 3 I wasn't certain of the year. 4 MR. BORGER: Right. 5 MR. MONGELLUZZO: And to -- just for 6 certain particular deals, not for all 7 transactions with those two sellers. 8 MR. BORGER: Right. 9 So -- but Fremont was also about 10 25 percent or what percentage? 11 MR. MONGELLUZZO: I believe it was 12 also 25 percent. 13 MR. BORGER: Any other originators 14 that come to mind about the exception to 15 the 100 percent? 16 MR. MONGELLUZZO: No, not that come 17 to mind. 18 MR. BORGER: How about American Home 19 Mortgage? 20 MR. MONGELLUZZO: Not that I'm aware 21 of. 22 MR. BORGER: New Century? 23 MR. MONGELLUZZO: Again, not that I'm 24 aware of. The two that I recall are the 25 two that I named.</p>

<p style="text-align: right;">Page 25</p> <p>1 AUDIO TRANSCRIPTION 2 MR. BORGERS: Let me just mention a 3 couple other. Quick Loan Funding? 4 MR. MONGELLUZZO: Not -- again, not 5 that I'm aware of. 6 MR. BORGERS: People's Choice? 7 MR. MONGELLUZZO: Again, not that I'm 8 aware of. 9 MR. BORGERS: Okay. I'm just trying 10 to trigger your memory. 11 MR. KREBS: Okay, let's go on. 12 MR. BORGERS: So in 2004, it was 13 100 percent except for these two 14 exceptions, 2005, it's still 100 percent? 15 MR. MONGELLUZZO: Well, again, I 16 didn't say it was 2004 for those two in 17 particular. I don't recall which year it 18 was. 19 UNIDENTIFIED SPEAKER: Right. But, 20 Mr. Mongelluzzo, just so we're clear, 21 we're not trying to put words in your 22 mouth. When you give dates, we understand 23 that they're approximate, it's not 24 adversarial. 25 MR. MONGELLUZZO: I'm not trying to</p>	<p style="text-align: right;">Page 27</p> <p>1 AUDIO TRANSCRIPTION 2 sir. 3 MR. MONGELLUZZO: So that would vary 4 fairly significantly, so it -- and several 5 different things would trigger that 6 difference, so I would say the range of 7 sample sizes there would be anything from 8 a minimum of 25 percent to a maximum of 9 100 percent. 10 MR. KREBS: Did you internally 11 conduct the due diligence reviews or did 12 you engage third-party vendors to do that 13 for you? 14 MR. MONGELLUZZO: We engaged 15 third-party vendors to do that for us. 16 MS. CAREY: We're still talking about 17 bulk purchases, right? 18 MR. KREBS: Yes, we're talking about 19 bulk, that's correct. 20 Which third-party vendors? 21 MR. MONGELLUZZO: We used several 22 over the years. The major three would be 23 Clayton, NBMC, and then 24 PricewaterhouseCoopers/Watterson Prime, 25 they went through a name change.</p>
<p style="text-align: right;">Page 26</p> <p>1 AUDIO TRANSCRIPTION 2 be adversarial, but you just said those 3 deals in 2004, I just want to make it 4 clear that I don't recall -- I recall 5 those two particular companies that we did 6 something less than 100 percent for a 7 particular deal, but I don't recall which 8 year that particular deal was, so I just 9 want to make sure that I'm not -- 10 UNIDENTIFIED SPEAKER: That's 11 understood. 12 MR. KREBS: Was there a time, 13 Mr. Mongelluzzo, that a change did occur 14 in terms -- or in connection with the size 15 of the samples conducted on subprime? 16 MR. MONGELLUZZO: No, our policy was 17 always that we did 100 percent for 18 subprime, again with a couple of 19 exceptions that I noted. 20 MR. KREBS: All right. What about 21 alt A, how many, what size? 22 MR. MONGELLUZZO: Are you talking 23 about what would be the size of the 24 diligence sample? 25 MR. KREBS: That is correct, yes,</p>	<p style="text-align: right;">Pag</p> <p>1 AUDIO TRANSCRIPTION 2 So those were the major three. We 3 had used some others, you know, 4 sporadically and intermittently, but those 5 would be the major three. 6 UNIDENTIFIED SPEAKER: Mr. Mongelluzzo 7 walking you back to alt A, what would 8 occasion a 25 percent sample, what 9 variables? 10 MR. MONGELLUZZO: The variables for 11 sample size in alt A were several, so who 12 the counterparty was, what our track 13 record was with them on previous reviews, 14 so those would be the primary two drivers. 15 UNIDENTIFIED SPEAKER: By what your 16 track record was, can you explain that? 17 MR. MONGELLUZZO: Sure. So whenever 18 we took on a new seller, we would do 19 100 percent due diligence for a number of 20 transactions to determine what we thought 21 of the quality of the loans that they were 22 selling us, and that number of 23 transactions increased over time. 24 Initially we would do a minimum of 25 five transactions, and eventually agreed</p>

<p style="text-align: right;">Page 29</p> <p>1 AUDIO TRANSCRIPTION</p> <p>2 to 15 transactions. After going through</p> <p>3 whatever the minimum number of</p> <p>4 transactions were in a point and period in</p> <p>5 time, we would then look at what the</p> <p>6 results were from those due diligence</p> <p>7 results and determine if we were</p> <p>8 comfortable in reducing the sample size.</p> <p>9 UNIDENTIFIED SPEAKER: And by the</p> <p>10 results, can you explain that?</p> <p>11 MR. KREBS: What factors led you to</p> <p>12 reduce the sample size?</p> <p>13 MR. MONGELLUZZO: If we were getting</p> <p>14 due diligence results where the pools were</p> <p>15 extremely clean and there weren't a lot of</p> <p>16 exceptions or issues or loans kicked out</p> <p>17 of the pool, that would tend to lead us to</p> <p>18 reducing the sample size.</p> <p>19 You know, the other component besides</p> <p>20 strictly the results is who the</p> <p>21 counterparty was themselves and what we</p> <p>22 felt their expertise was in originating</p> <p>23 that product, so a larger originator would</p> <p>24 more likely have a smaller sample size</p> <p>25 than a smaller originator because their</p>	<p style="text-align: right;">Page 31</p> <p>1 AUDIO TRANSCRIPTION</p> <p>2 reports when the due diligence was</p> <p>3 completed.</p> <p>4 The daily reports were in two</p> <p>5 different formats. One was an individual</p> <p>6 asset level report, so a report just about</p> <p>7 a particular month. Those were typically</p> <p>8 called IAS reports, individual asset</p> <p>9 summary reports. And then we would get an</p> <p>10 aggregated set of Excel spreadsheets that</p> <p>11 would roll up all the findings from the</p> <p>12 individual asset reports into a rolled-up</p> <p>13 format so that we could look at the data</p> <p>14 on a global basis.</p> <p>15 MR. KREBS: Did you or members of</p> <p>16 your staff travel to the sites for the</p> <p>17 conduct of the due diligence or did you</p> <p>18 retain -- remain at your headquarters?</p> <p>19 MR. MONGELLUZZO: We did both.</p> <p>20 Predominantly we remained at headquarters,</p> <p>21 but there were times where we would travel</p> <p>22 and be on sites.</p> <p>23 MR. KREBS: With respect to the</p> <p>24 persons who represented the due diligence</p> <p>25 firm on site, they were called what, the</p>
<p style="text-align: right;">Page 30</p> <p>1 AUDIO TRANSCRIPTION</p> <p>2 controls and the credit policies would</p> <p>3 tend to be better.</p> <p>4 MR. HINKLEY: Could you walk us</p> <p>5 through how Clayton would handle their due</p> <p>6 diligence with you, what types of reports,</p> <p>7 you know, and so on?</p> <p>8 MR. MONGELLUZZO: Sure. So once</p> <p>9 we -- and you want to speak specifically</p> <p>10 just about Clayton?</p> <p>11 MR. KREBS: No, just talk generally</p> <p>12 about your conduct, and we'll come down to</p> <p>13 individuals if we need to.</p> <p>14 MR. MONGELLUZZO: Okay. Well, the</p> <p>15 question was, is reports from Clayton, so</p> <p>16 I want to make sure I'm clear.</p> <p>17 MR. KREBS: Sure.</p> <p>18 MR. MONGELLUZZO: You want to talk</p> <p>19 about generally first?</p> <p>20 MR. KREBS: Yes, please.</p> <p>21 MR. MONGELLUZZO: Okay. So generally</p> <p>22 speaking, from the due diligence firms, we</p> <p>23 would get two different types of reporting</p> <p>24 on a daily basis as they were conducting</p> <p>25 the due diligence and then a final set of</p>	<p style="text-align: right;">Page 32</p> <p>1 AUDIO TRANSCRIPTION</p> <p>2 lead underwriter; is that correct?</p> <p>3 MR. MONGELLUZZO: They were called</p> <p>4 the lead, not a lead underwriter, but the</p> <p>5 lead.</p> <p>6 MR. KREBS: To your knowledge, did</p> <p>7 Bear Stearns manifest a desire to have a</p> <p>8 particular person as a lead in connection</p> <p>9 with the due diligence performed, say, by</p> <p>10 Clayton?</p> <p>11 MR. MONGELLUZZO: Yes.</p> <p>12 MR. KREBS: And that would be</p> <p>13 Mr. Barmore (phonetic), wouldn't it?</p> <p>14 MR. MONGELLUZZO: Mr. Barmore was one</p> <p>15 of the leads who would work. There were</p> <p>16 several leads that worked on our</p> <p>17 transactions, not just one.</p> <p>18 MR. KREBS: Yes, but was it not</p> <p>19 common for Bear Stearns, when you were</p> <p>20 employed there in the due diligence</p> <p>21 department, to evidence a desire to have a</p> <p>22 particular lead in connection with a due</p> <p>23 diligence performed on its behalf?</p> <p>24 MR. MONGELLUZZO: We had a desire to</p> <p>25 have a particular pool of leads as well as</p>

<p style="text-align: right;">Page 33</p> <p>1 AUDIO TRANSCRIPTION</p> <p>2 a particular pool of underwriters. One of</p> <p>3 the things that we did as a firm, we were</p> <p>4 the first firm, as far as I know, the only</p> <p>5 firm to actually test all of the diligence</p> <p>6 firms and their contract underwriters, and</p> <p>7 if they couldn't pass the underwriting</p> <p>8 test, they weren't permitted to work on</p> <p>9 our transactions so --</p> <p>10 MR. KREBS: All right. Excuse me, I</p> <p>11 didn't mean to interrupt you. I</p> <p>12 apologize.</p> <p>13 MR. MONGELLUZZO: That's okay.</p> <p>14 MR. KREBS: Was this a written test?</p> <p>15 MR. MONGELLUZZO: It was an online</p> <p>16 test that we published through our Bear</p> <p>17 Stearns portal, so it was a written test</p> <p>18 that they had to lobby online to take, and</p> <p>19 then if they didn't pass the test, they</p> <p>20 were not permitted to work on Bear Stearns</p> <p>21 transactions.</p> <p>22 MR. KREBS: And presumably the</p> <p>23 prospective underwriters, QC personnel at</p> <p>24 leads of any of the due diligence firms</p> <p>25 that wanted to provide services to Bear</p>	<p style="text-align: right;">Page 35</p> <p>1 AUDIO TRANSCRIPTION</p> <p>2 MR. KREBS: Do you recall whether or</p> <p>3 not it was early in the process or late in</p> <p>4 the process, that I'm looking for an</p> <p>5 approximate?</p> <p>6 MR. MONGELLUZZO: I'm not sure how</p> <p>7 you define early or late. If you ask me</p> <p>8 for my best guess, I would say that we</p> <p>9 instituted that test in 2006.</p> <p>10 MR. KREBS: Okay, that's fair.</p> <p>11 Now, let me ask you a little bit</p> <p>12 about the size of your department. How</p> <p>13 large was the due diligence -- what was</p> <p>14 the name of your department there at Bear</p> <p>15 Stearns?</p> <p>16 MR. MONGELLUZZO: Well, the</p> <p>17 department that I worked in was called</p> <p>18 mortgage finance.</p> <p>19 MR. KREBS: Yes.</p> <p>20 MR. MONGELLUZZO: So if you're asking</p> <p>21 how many employees were in mortgage</p> <p>22 finance --</p> <p>23 MR. KREBS: Yes.</p> <p>24 MR. MONGELLUZZO: -- it would have</p> <p>25 changed over time, and I'm not certain</p>
<p style="text-align: right;">Page 34</p> <p>1 AUDIO TRANSCRIPTION</p> <p>2 Stearns, their employees had to pass that?</p> <p>3 MR. MONGELLUZZO: That is correct.</p> <p>4 MR. KREBS: What subjects were</p> <p>5 considered in connection with that online</p> <p>6 test?</p> <p>7 MR. MONGELLUZZO: General</p> <p>8 underwriting and credit knowledge, so</p> <p>9 things, you know, things of how -- what to</p> <p>10 review on an appraisal, how to calculate</p> <p>11 DTI, how to look at credit reports, how to</p> <p>12 calculate income, so all standard credit,</p> <p>13 you know, credit criteria in terms of how</p> <p>14 to underwrite a loan.</p> <p>15 MR. KREBS: And presumably</p> <p>16 Mr. Barmore was one of those persons who</p> <p>17 passed that examination, correct?</p> <p>18 MR. MONGELLUZZO: If he was working</p> <p>19 our transactions after we posted that</p> <p>20 test, then the answer would be yes.</p> <p>21 MR. KREBS: At what point in time was</p> <p>22 that test created and passage of that test</p> <p>23 was required?</p> <p>24 MR. MONGELLUZZO: To be honest with</p> <p>25 you, I can't recall the year.</p>	<p style="text-align: right;">Page 36</p> <p>1 AUDIO TRANSCRIPTION</p> <p>2 what those numbers would have been.</p> <p>3 MR. KREBS: What were your duties in</p> <p>4 connection with your employment at Bear</p> <p>5 Stearns?</p> <p>6 MR. MONGELLUZZO: That would have</p> <p>7 changed from periods in time.</p> <p>8 MR. KREBS: All right. Let's start</p> <p>9 2006 through 2007.</p> <p>10 MR. MONGELLUZZO: My struggle here is</p> <p>11 with the exact dates.</p> <p>12 MR. KREBS: Okay. Let's back up.</p> <p>13 MR. MONGELLUZZO: It might be easier</p> <p>14 if I walked you through from 2004 without</p> <p>15 giving you specific dates.</p> <p>16 MR. KREBS: That would be fine.</p> <p>17 Thank you.</p> <p>18 MR. MONGELLUZZO: So in 2004 when I</p> <p>19 first joined the firm, I was brought on to</p> <p>20 run due diligence on particular pools of</p> <p>21 loans. So, you know, I was basically in,</p> <p>22 you know, a midlevel managerial world in</p> <p>23 terms of running due diligence, along with</p> <p>24 Patty Sears (phonetic) who also ran those,</p> <p>25 you know, due diligences.</p>

<p style="text-align: right;">Page 37</p> <p>1 AUDIO TRANSCRIPTION</p> <p>2 As our volumes increased, I</p> <p>3 eventually took on responsibility for</p> <p>4 running the due diligence process. I</p> <p>5 would say that probably occurred late</p> <p>6 2005, early 2006 and, you know, we</p> <p>7 continued to build staff, you know, over</p> <p>8 that period of time all the way through,</p> <p>9 you know, the end of the firm.</p> <p>10 MR. KREBS: At the end, at the close</p> <p>11 of business, how large was your due</p> <p>12 diligence department?</p> <p>13 MR. MONGELLUZZO: Well, again, it</p> <p>14 wasn't a due diligence department, so to</p> <p>15 speak, it was a group of individuals</p> <p>16 within mortgage finance responsible for</p> <p>17 due diligence.</p> <p>18 I'm not sure what the final headcount</p> <p>19 would have been. I would say it was five,</p> <p>20 maybe six, to the best of my knowledge.</p> <p>21 It could have been one person or two</p> <p>22 persons larger or smaller.</p> <p>23 MR. KREBS: When you began to run the</p> <p>24 whole department, what was the size?</p> <p>25 MR. MONGELLUZZO: Well, initially it</p>	<p style="text-align: right;">Page 39</p> <p>1 AUDIO TRANSCRIPTION</p> <p>2 saying were there -- looking to purchase</p> <p>3 more than one pool at a time and therefore</p> <p>4 having diligence going on on multiple</p> <p>5 pools at one time?</p> <p>6 MR. KREBS: Yes, sir, that's exactly</p> <p>7 what I'm saying.</p> <p>8 MR. MONGELLUZZO: Then the answer</p> <p>9 would be yes.</p> <p>10 MR. KREBS: How often did that</p> <p>11 happen?</p> <p>12 MR. MONGELLUZZO: I would say that it</p> <p>13 basically happened all of the time.</p> <p>14 MR. KREBS: So you were a pretty busy</p> <p>15 operation there?</p> <p>16 MR. MONGELLUZZO: Yes, I would say</p> <p>17 that we were busy.</p> <p>18 MR. KREBS: Was it during this period</p> <p>19 of time that you traveled less frequently</p> <p>20 to the sites and actually did it online or</p> <p>21 received the due diligence vendors'</p> <p>22 reports online?</p> <p>23 MR. MONGELLUZZO: We always received</p> <p>24 the due diligence vendors' reports via,</p> <p>25 you know, E-mail. Now -- and I don't</p>
<p style="text-align: right;">Page 38</p> <p>1 AUDIO TRANSCRIPTION</p> <p>2 was just two of us and then, you know, it</p> <p>3 grew from there.</p> <p>4 MR. KREBS: In 2006, did you have to</p> <p>5 hire more folks?</p> <p>6 MR. MONGELLUZZO: In 2006, by that</p> <p>7 point, yes, we would have hired more</p> <p>8 individuals.</p> <p>9 MR. KREBS: What type of person were</p> <p>10 you hiring in 2006 and what were they --</p> <p>11 what were you hiring them for?</p> <p>12 MR. MONGELLUZZO: We were hiring them</p> <p>13 to manage the due diligence process, to</p> <p>14 coordinate the due diligence with the</p> <p>15 vendors, and so we were looking for people</p> <p>16 with management skills as well as strong</p> <p>17 underwriting and credit backgrounds.</p> <p>18 MR. KREBS: Is it fair to say, sir,</p> <p>19 that during this period of time when you</p> <p>20 had multiple people running due diligence,</p> <p>21 that you, in fact, had more than one due</p> <p>22 diligence review of loan pools going on at</p> <p>23 the same time?</p> <p>24 MR. MONGELLUZZO: So let me make sure</p> <p>25 I understand the question. So are you</p>	<p style="text-align: right;">Page 40</p> <p>1 AUDIO TRANSCRIPTION</p> <p>2 think the timing changed where we did</p> <p>3 review.</p> <p>4 As a matter of fact, my recollection</p> <p>5 would be when I first started at the firm,</p> <p>6 that we didn't do any traveling at all and</p> <p>7 actually did more traveling as time went</p> <p>8 on.</p> <p>9 One of the things besides going out</p> <p>10 and doing reviews of actual pools of loans</p> <p>11 is we also instituted a process where we</p> <p>12 went out and audited the individual</p> <p>13 diligence firms to see what their</p> <p>14 processes were and what they were doing</p> <p>15 internally as well. So I think our travel</p> <p>16 and, you know, or review of the diligence</p> <p>17 firms and what they were doing increased</p> <p>18 over time, not decreased.</p> <p>19 MR. KREBS: What did the audit or</p> <p>20 review of the typical due diligence firm</p> <p>21 entail?</p> <p>22 MR. MONGELLUZZO: It would entail an</p> <p>23 on-site visit typically to wherever they</p> <p>24 had their underwriting center, so not</p> <p>25 necessarily where their corporate</p>

<p style="text-align: right;">Page 41</p> <p>1 AUDIO TRANSCRIPTION 2 headquarters were. 3 So, for example, both Clayton and 4 Watterson Prime had corporate headquarters 5 in locations other than where their 6 underwriting centers are, so the audit 7 didn't occur at the corporate level, it 8 occurred in the underwriting center. 9 And we were looking to -- we did a 10 security review in terms of how did they 11 handle data, we had an attorney, an 12 internal member of counsel, went with us 13 to see how they were looking at 14 compliance, and we had one of the senior 15 diligence managers go to talk to their 16 underwriting staff and managers in terms 17 of how they looked at loans, how they 18 escalated credit issues and that sort, so 19 generally three people who were going on 20 site to do the review. 21 MR. KREBS: When you say that you had 22 your internal, inside counsel review how 23 they handled compliance, are you talking 24 about compliance in the sense of loan 25 compliance with state lending laws or are</p>	<p style="text-align: right;">Page 43</p> <p>1 AUDIO TRANSCRIPTION 2 MR. MONGELLUZZO: We did them 3 annually. 4 MR. BORGERS: This is Tom Borgers 5 again. I have a question on the policies 6 for the due diligence area. When did you 7 have written policies, what year did it 8 start or did it start right away in 2004? 9 MR. MONGELLUZZO: Can you define what 10 you mean by policies? 11 MR. BORGERS: Well, the written 12 policies for due diligence, did you have 13 written policies for your area? 14 MR. MONGELLUZZO: We had various 15 written procedures, so I'm not sure if 16 there's a distinction between procedures 17 and policies. 18 MR. BORGERS: We understood that you 19 helped write those policies with other 20 members of your group, including your 21 boss? 22 MR. MONGELLUZZO: That would be 23 correct. 24 MR. BORGERS: And when were those 25 policies written? I didn't hear that.</p>
<p style="text-align: right;">Page 42</p> <p>1 AUDIO TRANSCRIPTION 2 you talking about generally compliance as 3 we come to think of it in the securities 4 business? 5 MR. MONGELLUZZO: No, compliance with 6 state regulatory laws in terms of the 7 origination of the file. 8 MR. KREBS: So your counsel would go 9 down and determine whether or not they 10 actually understood and had loaded in 11 their computers the correct data for, say, 12 the state of Nevada or the state of 13 California? 14 MR. MONGELLUZZO: Our counsel would 15 go and make sure that they were 16 interpreting the laws correctly, that we 17 required that all of the diligence firms 18 had an outside audit by an outside law 19 firm to make sure that the actual, you 20 know, computer programming was spitting 21 out the right results in terms of 22 compliance. 23 MR. KREBS: Thank you. 24 UNIDENTIFIED SPEAKER: How often did 25 you do these audits?</p>	<p style="text-align: right;">Pag</p> <p>1 AUDIO TRANSCRIPTION 2 I'm sorry. Kind of bleeped out for a 3 second. 4 MR. MONGELLUZZO: Again, in my mind, 5 it's procedures versus policies, and maybe 6 it's just how I think of them, and I 7 couldn't tell you the time frame for 8 certain. I would say it was probably 9 2005, 2006. 10 MR. BORGERS: Yeah, I'm not talking 11 about procedures so much, I'm talking 12 about the actual policies. 13 MR. MONGELLUZZO: You need to define 14 for me then -- 15 MR. CUNICELLI: Let's say policy, 16 what you're allowed to do, procedures, how 17 you do it, step by step? 18 MR. MONGELLUZZO: So policies in 19 terms of what you're allowed to do. 20 MR. CUNICELLI: You -- a minute ago, 21 you told Mr. Borgers that you did write up 22 policy. 23 MR. MONGELLUZZO: Well, I said 24 procedurs and he said policy. 25 MR. CUNICELLI: Okay. So you wrote</p>

<p style="text-align: right;">Page 45</p> <p>1 AUDIO TRANSCRIPTION</p> <p>2 up procedures. What's, I guess, your</p> <p>3 working definition of procedures? Is</p> <p>4 that --</p> <p>5 MR. MONGELLUZZO: My working</p> <p>6 definition of procedure would be very</p> <p>7 similar to yours, the step by step of what</p> <p>8 you do in terms of, you know, checklists</p> <p>9 in terms of this is how you contact the</p> <p>10 diligence firm, this is what we're</p> <p>11 required to get from reporting from the</p> <p>12 diligence firm, this is how to communicate</p> <p>13 with the diligence firm on an ongoing</p> <p>14 basis, so those sort of step-by-step</p> <p>15 procedures.</p> <p>16 So again, I'm not certain what you're</p> <p>17 looking for in terms of policy.</p> <p>18 MR. CUNICELLI: Okay, that's fine.</p> <p>19 You defined procedure for us, you wrote</p> <p>20 procedure, you didn't write policy?</p> <p>21 MR. MONGELLUZZO: That would be my</p> <p>22 understanding.</p> <p>23 MR. CUNICELLI: Okay. Were you and</p> <p>24 Miss Sears the primary liaison with</p> <p>25 third-party due diligence firms when they</p>	<p style="text-align: right;">Page 47</p> <p>1 AUDIO TRANSCRIPTION</p> <p>2 MR. HINKLEY: You indicated you</p> <p>3 picked firms on the basis of their</p> <p>4 expertise. Please provide some specifics</p> <p>5 as to which firms were -- had more</p> <p>6 expertise than others in various types of</p> <p>7 mortgages.</p> <p>8 MR. MONGELLUZZO: Clayton and</p> <p>9 Watterson Prime primarily did all of our</p> <p>10 subprime loans. NBMC didn't have staff</p> <p>11 that handled those kind of transactions.</p> <p>12 It wasn't where their business model was</p> <p>13 around.</p> <p>14 And then additionally, the capacity</p> <p>15 would come in to play because all of the</p> <p>16 diligence firms had a pool of underwriters</p> <p>17 that would be more expertise in subprime</p> <p>18 loans versus others, so they didn't have</p> <p>19 enough capacity of underwriters available</p> <p>20 to, you know, at that time had that</p> <p>21 expertise. We would pick one firm over</p> <p>22 another depending upon the pool of people</p> <p>23 that were available.</p> <p>24 MR. HINKLEY: You indicated that</p> <p>25 annually you conducted an audit as to each</p>
<p style="text-align: right;">Page 46</p> <p>1 AUDIO TRANSCRIPTION</p> <p>2 were performing the due diligence?</p> <p>3 MR. MONGELLUZZO: It would depend</p> <p>4 upon the time frame, so initially in 2004,</p> <p>5 2005, since we were the only two people</p> <p>6 responsible for that function, the answer</p> <p>7 would be yes. As we added on other due</p> <p>8 diligence managers, those people would</p> <p>9 also have contact with due diligence</p> <p>10 firms.</p> <p>11 MR. KREBS: How did you make the</p> <p>12 decision to determine which due diligence</p> <p>13 firm to use on a particular pool?</p> <p>14 MR. MONGELLUZZO: I think that there</p> <p>15 was a number of factors that would go into</p> <p>16 which due diligence firm we would use.</p> <p>17 Some of it was capacity driven, some of it</p> <p>18 was based upon expertise, so I would think</p> <p>19 that those two things were the primary,</p> <p>20 you know, the primary drivers.</p> <p>21 MR. HINKLEY: Were some firms better</p> <p>22 than others at various things, you said</p> <p>23 expertise, and if so, which ones and how?</p> <p>24 MR. MONGELLUZZO: Could you ask the</p> <p>25 question again, please?</p>	<p style="text-align: right;">Page 48</p> <p>1 AUDIO TRANSCRIPTION</p> <p>2 of these firms. Is that -- this is the</p> <p>3 first time we've heard this from an</p> <p>4 underwriter. Do you know if any other</p> <p>5 Wall Street firms conducted audits of the</p> <p>6 due diligence firms?</p> <p>7 MR. MONGELLUZZO: I can't say</p> <p>8 specifically whether they have or they</p> <p>9 haven't. I can tell you that we were the</p> <p>10 first firm to do the underwriting tests.</p> <p>11 We were the first firm to go out and do an</p> <p>12 audit.</p> <p>13 One of the things that I spearheaded</p> <p>14 was we created within SIFMA of due</p> <p>15 diligence managers, so it was a due</p> <p>16 diligence committee within SIFMA so that</p> <p>17 all of the Wall Street firms could get</p> <p>18 together and talk about standards.</p> <p>19 Part of what drove that was when the</p> <p>20 other firms found out that we were testing</p> <p>21 underwriters and doing audits, that they</p> <p>22 wanted to know what else that they could</p> <p>23 do and to make sure that we all could</p> <p>24 follow similar procedures to get improved</p> <p>25 people working in the industry working on</p>

<p style="text-align: right;">Page 49</p> <p>1 AUDIO TRANSCRIPTION</p> <p>2 our projects.</p> <p>3 MR. HINKLEY: Did -- I mean, you said</p> <p>4 you conducted the audits annually. Did</p> <p>5 they turn up anything significant that led</p> <p>6 you to do this or was it just your</p> <p>7 following the book? I mean, I think it</p> <p>8 seems a little unusual unless you were</p> <p>9 finding something.</p> <p>10 MR. MONGELLUZZO: No, I think that we</p> <p>11 took due diligence exceptionally</p> <p>12 seriously, and so we were constantly</p> <p>13 looking at ways in which to make sure that</p> <p>14 we could improve the process, so not only</p> <p>15 did we go out and do audits of due</p> <p>16 diligence vendors, we used other vendors</p> <p>17 to provide us with fraud tools, other</p> <p>18 vendors to provide us with valuation</p> <p>19 tools, and we went through annual testing</p> <p>20 of those tools to see which ones were the</p> <p>21 best in class in terms of the marketplace.</p> <p>22 So we spent a lot of time and effort</p> <p>23 continually trying to improve the process.</p> <p>24 So I wouldn't say that we thought that</p> <p>25 there was something wrong. I kind of</p>	<p style="text-align: right;">Page 51</p> <p>1 AUDIO TRANSCRIPTION</p> <p>2 number of different ways, again, to</p> <p>3 improve the process. So I would think</p> <p>4 that any firm would have had some gap</p> <p>5 between that final version and their</p> <p>6 process because all of the firms were</p> <p>7 bringing contributions to the table in</p> <p>8 terms of let's do this, let's do that,</p> <p>9 these are things that we can do to</p> <p>10 improve. So we were drawing from a much</p> <p>11 bigger knowledge base in terms of other</p> <p>12 things that we could do.</p> <p>13 MR. HINKLEY: Those -- the SIFMA</p> <p>14 procedures rely quite a bit on samples,</p> <p>15 yet Bear Stearns was doing 100 percent</p> <p>16 samples; is that right?</p> <p>17 MR. MONGELLUZZO: We were doing</p> <p>18 100 percent for subprime, generally</p> <p>19 speaking, correct.</p> <p>20 MR. HINKLEY: I'm interested in why</p> <p>21 you were doing 100 percent, yet it seems</p> <p>22 like the SIFMA standard was for a sample</p> <p>23 of much less?</p> <p>24 MR. MONGELLUZZO: I'm sorry, can you</p> <p>25 ask the question again?</p>
<p style="text-align: right;">Page 50</p> <p>1 AUDIO TRANSCRIPTION</p> <p>2 liken the example to, you know, you build</p> <p>3 the best car you can today, but that</p> <p>4 doesn't mean that you don't want to build</p> <p>5 a better car tomorrow.</p> <p>6 So we were always looking at ways in</p> <p>7 which we could improve the process.</p> <p>8 MR. HINKLEY: You said you worked on</p> <p>9 the SIFMA due diligence committee. Are</p> <p>10 you familiar with the proposed due</p> <p>11 diligence standards that SIFMA was working</p> <p>12 on?</p> <p>13 MR. MONGELLUZZO: Yes.</p> <p>14 MR. HINKLEY: To what extent did Bear</p> <p>15 Stearns' due diligence standards differ</p> <p>16 from those that were ultimately -- that</p> <p>17 are in the last draft proposed by SIFMA?</p> <p>18 MR. MONGELLUZZO: It would depend</p> <p>19 upon point in time, so I chaired that</p> <p>20 committee at SIFMA, and we brought into</p> <p>21 that committee, members of the rating</p> <p>22 agencies as well as members of the</p> <p>23 diligence firms.</p> <p>24 And so it was a collective of</p> <p>25 bringing thoughts and processes from a</p>	<p style="text-align: right;">Pag</p> <p>1 AUDIO TRANSCRIPTION</p> <p>2 MR. HINKLEY: I'm interested in why</p> <p>3 Bear Stearns was doing 100 percent, but</p> <p>4 the SIFMA sampling technique which was</p> <p>5 being recommended as a standard procedure</p> <p>6 seemed to be for using samples as opposed</p> <p>7 to 100 percent reviews?</p> <p>8 MR. MONGELLUZZO: I just think that</p> <p>9 we, again, took diligence, you know, at a</p> <p>10 much, you know, at a very serious level,</p> <p>11 and so there are -- I think there were</p> <p>12 many instances where we were the</p> <p>13 trendsetter of doing things above and</p> <p>14 beyond what other organizations did.</p> <p>15 Again, I point you back to the</p> <p>16 underwriting tests and to going out and</p> <p>17 auditing the vendors, the testing that we</p> <p>18 did of valuation vendors and fraud</p> <p>19 vendors, you know, so just because</p> <p>20 somebody else would use a lesser standard</p> <p>21 wouldn't mean that we would.</p> <p>22 MR. HINKLEY: Yeah, but you were</p> <p>23 sitting as the chair of this due diligence</p> <p>24 committee, and you had a procedure or</p> <p>25 policy at Bear Stearns that did not rely</p>

<p style="text-align: right;">Page 53</p> <p>1 AUDIO TRANSCRIPTION</p> <p>2 on samples, yet the committee was putting</p> <p>3 out a standardized policy or procedure</p> <p>4 that did. I'm trying to figure out how</p> <p>5 you reconciled that?</p> <p>6 MR. MONGELLUZZO: I think it's a</p> <p>7 fairly easy reconciliation. When you're</p> <p>8 working from a trade association</p> <p>9 standpoint, you're building a consensus,</p> <p>10 that doesn't mean that any of the members</p> <p>11 of the organization couldn't exceed that</p> <p>12 standard, you know, so that would be, you</p> <p>13 know, you know, in my mind, the minimal</p> <p>14 acceptable standard.</p> <p>15 If we or any other firm chose to</p> <p>16 exceed that standard, that would be fine,</p> <p>17 as long as everybody at least met the</p> <p>18 minimum standard.</p> <p>19 MS. CAREY: Tom, for the first time,</p> <p>20 we'd like to take a short break.</p> <p>21 MR. KREBS: Sure, why don't we call</p> <p>22 you back in ten.</p> <p>23 MS. CAREY: We'll just put you on</p> <p>24 mute. We'll take a quick break.</p> <p>25 MR. CUNICELLI: Break at 11:25, going</p>	<p style="text-align: right;">Page 55</p> <p>1 AUDIO TRANSCRIPTION</p> <p>2 you know, a report on those, but I don't</p> <p>3 remember what the format of that was.</p> <p>4 MR. HINKLEY: And overall, did you</p> <p>5 find Clayton to be among your best, your</p> <p>6 worst, how -- without getting into the</p> <p>7 specifics?</p> <p>8 MR. MONGELLUZZO: I would say that we</p> <p>9 thought that they -- that all of the</p> <p>10 diligence firms were fairly similar, that</p> <p>11 they all had, you know, things that they</p> <p>12 could improve upon, but in general,</p> <p>13 thought that they, you know, that they did</p> <p>14 a good job.</p> <p>15 MR. HINKLEY: Was there any overall</p> <p>16 problem with all of the firms that you</p> <p>17 would like to see them do better for Bear</p> <p>18 Stearns? What was your wish list for your</p> <p>19 due diligence firms that you didn't think</p> <p>20 they were doing properly?</p> <p>21 MR. MONGELLUZZO: Could you ask the</p> <p>22 question, I think you asked two different</p> <p>23 questions, and so I need a little</p> <p>24 clarification. Could you ask the question</p> <p>25 again, please.</p>
<p style="text-align: right;">Page 54</p> <p>1 AUDIO TRANSCRIPTION</p> <p>2 off the record.</p> <p>3 (Recess taken.)</p> <p>4 MR. CUNICELLI: Back on the record,</p> <p>5 11:36.</p> <p>6 MR. HINKLEY: Mr. Mongelluzzo, a</p> <p>7 question about the audit review that you</p> <p>8 did in 2006. I'd like to focus on one of</p> <p>9 your firms, and that's Clayton.</p> <p>10 Can you tell us what your findings</p> <p>11 were about Clayton?</p> <p>12 MR. MONGELLUZZO: When you say the</p> <p>13 audit review that we went on site to do at</p> <p>14 the diligence firm, is that the audit</p> <p>15 review you're speaking of?</p> <p>16 MR. HINKLEY: Yes.</p> <p>17 MR. MONGELLUZZO: I couldn't tell you</p> <p>18 specifically what audit findings were, you</p> <p>19 know, on a particular review. I wouldn't</p> <p>20 remember details.</p> <p>21 MR. KREBS: How were the audit</p> <p>22 reviews memorialized?</p> <p>23 MR. MONGELLUZZO: I'm trying to --</p> <p>24 I'm hesitating because I'm trying to</p> <p>25 recall. I believe that we put together,</p>	<p style="text-align: right;">Page 56</p> <p>1 AUDIO TRANSCRIPTION</p> <p>2 MR. HINKLEY: Based upon your</p> <p>3 standards, what did you want to see more</p> <p>4 from your firms, was there a particular</p> <p>5 type of review that you wished they would</p> <p>6 enhance or improve overall with all the</p> <p>7 firms?</p> <p>8 MR. MONGELLUZZO: Well, I think that</p> <p>9 changed from time to time. I think at any</p> <p>10 point in period of time, we thought that</p> <p>11 they were doing the best review that could</p> <p>12 be done, and then as we became aware of</p> <p>13 something that could be improved, we would</p> <p>14 improve that process.</p> <p>15 So I think we were constantly looking</p> <p>16 for ways to improve the process, but I</p> <p>17 don't know that I would say that, you</p> <p>18 know, we thought that their process was</p> <p>19 inadequate or we had a wish list while,</p> <p>20 oh, can they do this. When we found</p> <p>21 something that could be improved, we made</p> <p>22 it a requirement that that item change or</p> <p>23 be improved upon, so as soon as we found</p> <p>24 things that we could improve upon, that's</p> <p>25 what we would require.</p>

<p style="text-align: right;">Page 57</p> <p>1 AUDIO TRANSCRIPTION 2 MR. CUNICELLI: Mr. Mongelluzzo, I 3 think you said earlier that you had three 4 basic third-party due diligence firms, and 5 two of them, Clayton and Pricewaterhouse, 6 were generally qualified to do subprime? 7 MR. MONGELLUZZO: That's correct. 8 MR. CUNICELLI: Okay. Would you have 9 engaged Clayton in particular to do 10 diligence subprime deals? 11 MR. MONGELLUZZO: Yes, we did engage 12 Clayton to do diligence on subprime deals. 13 MR. CUNICELLI: And when you engaged 14 Clayton to do subprime deals, you engaged 15 them to do a 100 percent sample of due 16 diligence or 100 percent of every loan in 17 the deal? 18 MR. MONGELLUZZO: Generally speaking, 19 other than the exceptions I noted earlier, 20 yes. 21 MR. CUNICELLI: So, you know, 22 largely, every time you engage Clayton on 23 a subprime deal, they performed 24 100 percent due diligence on the 25 underlying assets?</p>	<p style="text-align: right;">Page 59</p> <p>1 AUDIO TRANSCRIPTION 2 diligence firm, one being an individual 3 asset level report and the rolled-up 4 report. The rolled-up report would 5 frequently or, you know, always contain a 6 portion of that which was an exception 7 report. 8 So typically the reporting for that 9 was in an Excel format. They would -- the 10 reports that we would receive would have 11 multiple tabs on the Excel format, and one 12 of those tabs would be the exception 13 report. The exception report would list 14 all of the loans that had some sort of 15 exception on them. 16 MR. CUNICELLI: Mr. Mongelluzzo, with 17 that in mind, I asked you a question 18 earlier about were you and Miss Sears the 19 primary contact, and I think you told me 20 that early on, that would have been the 21 case. 22 MR. MONGELLUZZO: Yes, that's 23 correct. 24 MR. CUNICELLI: Okay. So -- and by 25 the way, early on, is that 2004 or 2005,</p>
<p style="text-align: right;">Page 58</p> <p>1 AUDIO TRANSCRIPTION 2 MR. MONGELLUZZO: That's correct. 3 MR. KREBS: What are exception 4 reports? 5 MR. MONGELLUZZO: Are you 6 specifically talking about due diligence 7 exception reports? 8 MR. KREBS: Absolutely. I believe 9 that is the reason why we've got you -- 10 you're sitting here where you are today 11 and we're sitting where we are, to talk 12 about due diligence. 13 MR. MONGELLUZZO: I just wanted to be 14 clear that I wasn't going to answer 15 something that you weren't looking for. 16 MR. KREBS: I think you're absolutely 17 correct. Any time you have a question for 18 us that you don't understand, I think -- 19 we encourage you to go ahead and try to 20 have a full understanding before you 21 answer. 22 MR. MONGELLUZZO: With the exception 23 reports were -- when I described earlier 24 that there were two different types of 25 reports that we received from the</p>	<p style="text-align: right;">Pag</p> <p>1 AUDIO TRANSCRIPTION 2 in that time frame? 3 MR. MONGELLUZZO: To the best of my 4 knowledge, I'm not sure when we started 5 adding on additional people. 6 MR. CUNICELLI: Okay. Excellent. 7 And just going with your early on and 8 perhaps in that '04, '05 time frame, 9 perhaps not, you would have received these 10 reports daily, these two reports, the IAS 11 and the aggregate Excel spreadsheet, daily 12 from any third-party due diligence firm 13 you engaged? 14 MR. MONGELLUZZO: That's correct. 15 MR. CUNICELLI: Okay. And walk me 16 through the process. You're receiving 17 this daily via electronic mail? 18 MR. MONGELLUZZO: That's correct. 19 MR. CUNICELLI: Okay. And you 20 reviewed that daily or would you review 21 that at the end of an engagement? 22 MR. MONGELLUZZO: No, it would be 23 reviewed daily. 24 MR. CUNICELLI: Okay. So you review 25 that daily, and would you review the</p>

<p style="text-align: right;">Page 61</p> <p>1 AUDIO TRANSCRIPTION</p> <p>2 exception tab daily?</p> <p>3 MR. MONGELLUZZO: Yes.</p> <p>4 MR. CUNICELLI: Okay. And I take it</p> <p>5 that some of these things, there would be</p> <p>6 things missing in the files. I guess</p> <p>7 Clayton would call that a 2T, there was</p> <p>8 trailing documentation. Are you familiar</p> <p>9 with that?</p> <p>10 MR. MONGELLUZZO: We didn't use the</p> <p>11 nomenclature of 2T or transaction.</p> <p>12 MR. CUNICELLI: Okay. What about</p> <p>13 trailing -- what nomenclature would you</p> <p>14 use for missing or trailing documentation?</p> <p>15 MR. MONGELLUZZO: A loan that was</p> <p>16 missing documentation would have been</p> <p>17 rated as a three, and then if --</p> <p>18 MR. CUNICELLI: I apologize. Go</p> <p>19 ahead.</p> <p>20 MR. MONGELLUZZO: No, that's okay. I</p> <p>21 was finished.</p> <p>22 MR. CUNICELLI: Okay. So that would</p> <p>23 have been a three. Before you close out</p> <p>24 this wake or this engagement, you have to</p> <p>25 have a final status on all loans. Does</p>	<p style="text-align: right;">Page 63</p> <p>1 AUDIO TRANSCRIPTION</p> <p>2 correct?</p> <p>3 MR. MONGELLUZZO: It means that</p> <p>4 there's some issue with the loan, correct.</p> <p>5 MR. CUNICELLI: Okay. And is Bear</p> <p>6 Stearns just going to accept that</p> <p>7 20 percent or do you engage in some</p> <p>8 process to see how many of those you can</p> <p>9 clear?</p> <p>10 MR. MONGELLUZZO: There is a process</p> <p>11 to see if those loans can be cleared.</p> <p>12 MR. CUNICELLI: Okay. And what is</p> <p>13 that process, why don't you run it down</p> <p>14 for me step by step since you're a</p> <p>15 procedure guy and you know step by step?</p> <p>16 MR. MONGELLUZZO: So upon receiving</p> <p>17 the final report, that final report would</p> <p>18 be shared with the seller of the loan, and</p> <p>19 the seller of the loan would be granted an</p> <p>20 opportunity to correct whatever the</p> <p>21 deficiencies with that loan are.</p> <p>22 So in the instance that you gave the</p> <p>23 example where a loan was missing some</p> <p>24 documentation, if they were able to</p> <p>25 produce that documentation and that</p>
<p style="text-align: right;">Page 62</p> <p>1 AUDIO TRANSCRIPTION</p> <p>2 Bear Stearns accept all the threes or do</p> <p>3 you have some sort of negotiation as to,</p> <p>4 you know, which threes have been cleared</p> <p>5 or which -- or for which threes there</p> <p>6 could be a waiver?</p> <p>7 MR. MONGELLUZZO: I think you're</p> <p>8 asking multiple questions.</p> <p>9 MR. CUNICELLI: Yes, I am. If you</p> <p>10 can give me multiple answers, that would</p> <p>11 be amazing.</p> <p>12 MR. MONGELLUZZO: Could we take them</p> <p>13 one at a time because I can't remember the</p> <p>14 first one by the time you got to the</p> <p>15 second one.</p> <p>16 MR. CUNICELLI: Okay.</p> <p>17 MR. MONGELLUZZO: If it was in parts</p> <p>18 it would be easier for me.</p> <p>19 MR. CUNICELLI: Less moving parts, no</p> <p>20 problem.</p> <p>21 You've got a list, and the list has,</p> <p>22 you know, out of a pool of 5,000 loans,</p> <p>23 you have 1,000 that are in the status of</p> <p>24 three, 20 percent, and three means it</p> <p>25 doesn't meet the underwriting standards,</p>	<p style="text-align: right;">Page 64</p> <p>1 AUDIO TRANSCRIPTION</p> <p>2 documentation satisfied whatever findings</p> <p>3 the due diligence vendor had found, then</p> <p>4 that loan would be eligible for purchase.</p> <p>5 If that documentation they provided</p> <p>6 did not satisfy the criteria for the</p> <p>7 diligence firm in terms of being either</p> <p>8 all of the missing documents or if there</p> <p>9 was some deficiency on the document that</p> <p>10 they provided, then that loan would remain</p> <p>11 a three and would not be purchased.</p> <p>12 MR. CUNICELLI: Okay. And using that</p> <p>13 example that I started, missing</p> <p>14 documentation that they now produced, and</p> <p>15 you mentioned the word "nomenclature"</p> <p>16 earlier.</p> <p>17 If there was missing documentation</p> <p>18 and the seller subsequently produced the</p> <p>19 documentation, would you use the</p> <p>20 nomenclature "waiver" for that or no,</p> <p>21 would that not be a waiver or would that</p> <p>22 be a waiver?</p> <p>23 MR. MONGELLUZZO: Well, I'm not sure</p> <p>24 how you are using the term "waiver." We</p> <p>25 as a firm did not use the word "waiver."</p>

<p style="text-align: right;">Page 65</p> <p>1 AUDIO TRANSCRIPTION 2 MR. CUNICELLI: Okay. What term 3 would you use for a loan that was in 4 status three because of missing 5 documentation, and that documentation was 6 subsequently provided by the seller? 7 MR. MONGELLUZZO: Well, that loan, it 8 would depend upon rereview of the loan and 9 that documentation, that loan would be 10 recoded and no longer be a three because 11 it would no longer have a deficiency. 12 MR. CUNICELLI: So that would be a 13 recode from a three to a one? 14 MR. MONGELLUZZO: That would depend. 15 So in different periods in time, it was 16 different. At a juncture in time, we 17 required that those loans that changed 18 code actually got a separate status code 19 of a four. 20 MR. CUNICELLI: Okay. And a four 21 would indicate kind of a repair from a 22 three to basically a one where it's 23 acceptable, it meets underwriting 24 standards? 25 MR. MONGELLUZZO: It would basically</p>	<p style="text-align: right;">Page 67</p> <p>1 AUDIO TRANSCRIPTION 2 would have used the numeric four? 3 MR. MONGELLUZZO: To be honest with 4 you, I'm not really certain. 5 MR. KREBS: Let me ask you this 6 question: This is Tom Krebs. 7 Were your duties and 8 responsibilities, did they extend to EMC 9 purchases or only for Bear Stearns? 10 MR. MONGELLUZZO: I'm not sure how to 11 answer your question. Are you talking the 12 difference between full purchases and 13 another channel of origination? 14 MR. KREBS: Well, we were talking 15 generally about bulk purchases, but now 16 that you've raised that issue, what was, 17 if any, your relationship with EMC and 18 your responsibilities? 19 MR. MONGELLUZZO: Well, I was always 20 an employee of Bear Stearns, so my 21 relation -- and EMC was, you know, 22 obviously a company owned by Bear Stearns, 23 so my relationship with EMC would have 24 been different in various different points 25 in time.</p>
<p style="text-align: right;">Page 66</p> <p>1 AUDIO TRANSCRIPTION 2 mean that there was a change from the 3 original finding of a three to something 4 else. 5 MR. CUNICELLI: To something else, 6 okay. 7 And you said that at one juncture in 8 time, you used a four. At other 9 junctures, could you walk those down for 10 me? 11 MR. MONGELLUZZO: The original 12 process would have been that the diligence 13 firm would have taken that three once the 14 loan was repaired, turn it either to a two 15 or one depending on what the appropriate 16 rating was. 17 As time went on, we wanted to be able 18 to track those loans separately, and so we 19 then required that they code them as a 20 four. So somewhere later in the process, 21 we changed that coding from a reverting to 22 one of the previous numbers to it having a 23 separate and distinct code. 24 MR. CUNICELLI: Okay. And any idea 25 in what time frame you're talking that you</p>	<p style="text-align: right;">Pag</p> <p>1 AUDIO TRANSCRIPTION 2 MR. HINKLEY: All right. Let's start 3 at the top, okay. We understand that Bear 4 Stearns and EMC bought mortgages from 5 various parties during the period 2004 to 6 2007. 7 MR. MONGELLUZZO: Yup. 8 MR. HINKLEY: Explain to us how your 9 position fit in to the purchase of 10 mortgages generally by Bear Stearns and 11 EMC and what your responsibilities were. 12 Now, we know you're part of the 13 mortgage finance department. What other 14 parts of the mortgage finance department 15 were there besides due diligence, how did 16 you fit in and what were your overall 17 responsibilities? 18 MR. MONGELLUZZO: Well, I don't know 19 if I could speak to all of the areas of 20 mortgage finance in terms of what -- 21 MR. HINKLEY: Give us your best 22 recollection as to how your group fit in 23 to Bear Stearns mortgage purchase 24 operation. 25 MR. MONGELLUZZO: So --</p>

<p style="text-align: right;">Page 69</p> <p>1 AUDIO TRANSCRIPTION</p> <p>2 MR. HINKLEY: You went to work every</p> <p>3 morning, you knew where you fit in, just</p> <p>4 lay it out for us so we can understand it.</p> <p>5 MR. MONGELLUZZO: Sure.</p> <p>6 So --</p> <p>7 MS. CAREY: Bob, I think I might be</p> <p>8 able to help because I think we're just</p> <p>9 getting tangled in basic company structure</p> <p>10 stuff.</p> <p>11 The -- all the bulk purchases, and</p> <p>12 John will correct me if I'm wrong, that</p> <p>13 were purchased by Bear Stearns at large</p> <p>14 were purchased through the bulk channel</p> <p>15 EMC. That's my understanding, in talking</p> <p>16 today about EMC as a purchaser of those</p> <p>17 mortgages. John was getting his paycheck</p> <p>18 from Bear Stearns.</p> <p>19 MR. KREBS: But we have been talking</p> <p>20 about, throughout this morning's</p> <p>21 conversation, about bulk purchases through</p> <p>22 EMC; is that right, Jessica?</p> <p>23 MS. CAREY: Hold on, John, you're far</p> <p>24 away on that one. Can you repeat that? I</p> <p>25 didn't hear you.</p>	<p style="text-align: right;">Page 71</p> <p>1 AUDIO TRANSCRIPTION</p> <p>2 different channel in which EMC purchased</p> <p>3 mortgages, so they would purchase</p> <p>4 mortgages one at a time as opposed to in</p> <p>5 bulk packages.</p> <p>6 So those loans would be sent one at a</p> <p>7 time to EMC to be reviewed as opposed to a</p> <p>8 bulk package that would aggregate hundreds</p> <p>9 of loans together.</p> <p>10 MR. HINKLEY: Right. So if Bear</p> <p>11 Stearns or EMC were to buy a mortgage</p> <p>12 during the period 2004 to 2007, it would</p> <p>13 either be a bulk or one of these</p> <p>14 individually purchased flow mortgages?</p> <p>15 MR. MONGELLUZZO: To the best of my</p> <p>16 knowledge, yes.</p> <p>17 MR. HINKLEY: And your responsibility</p> <p>18 was for all bulk purchases at both EMC and</p> <p>19 Bear?</p> <p>20 MR. MONGELLUZZO: During the</p> <p>21 diligence of those, correct.</p> <p>22 MR. HINKLEY: Now, that's the next</p> <p>23 point. When Bear Stearns or EMC goes to</p> <p>24 buy mortgages, that's -- how does that</p> <p>25 process work and how does due diligence</p>
<p style="text-align: right;">Page 70</p> <p>1 AUDIO TRANSCRIPTION</p> <p>2 MR. HINKLEY: Bear Stearns wants to</p> <p>3 buy a mortgage or a pool of mortgages or</p> <p>4 EMC wants to buy a mortgage or a pool of</p> <p>5 mortgages. Where do we fit in in the</p> <p>6 total scheme of those things? There's</p> <p>7 bulk mortgages and there's what other kind</p> <p>8 of mortgages and what was our position in</p> <p>9 the organizational structure and what did</p> <p>10 we have to do?</p> <p>11 MR. MONGELLUZZO: So the due</p> <p>12 diligence group that we've been speaking</p> <p>13 about was responsible for doing the due</p> <p>14 diligence on bulk purchases of loans. So</p> <p>15 that's where we fit in in the</p> <p>16 organization, so any bulk package that was</p> <p>17 purchased by the firm, this group would do</p> <p>18 the due diligence of those bulk purchases.</p> <p>19 MR. HINKLEY: And that includes EMC</p> <p>20 and Bear?</p> <p>21 MR. MONGELLUZZO: That is correct.</p> <p>22 MR. HINKLEY: And that doesn't cover</p> <p>23 the flow, and explain to me what the flow</p> <p>24 is again.</p> <p>25 MR. MONGELLUZZO: The flow was a</p>	<p style="text-align: right;">Page 72</p> <p>1 AUDIO TRANSCRIPTION</p> <p>2 fit into that process?</p> <p>3 MR. MONGELLUZZO: When they go --</p> <p>4 well, I thought we had outlined that</p> <p>5 process earlier, that the trade desk would</p> <p>6 do all of the, you know, the bidding on a</p> <p>7 package of loans, if they were awarded the</p> <p>8 package of loans, they would notify the</p> <p>9 due diligence group that we were</p> <p>10 purchasing a package of loans and that</p> <p>11 those loans needed to be diligenced, and</p> <p>12 then we would arrange with a third-party</p> <p>13 vendor to perform that loan level's</p> <p>14 diligence.</p> <p>15 MR. HINKLEY: And your group had how</p> <p>16 many people in it, five people you said at</p> <p>17 the end?</p> <p>18 MR. MONGELLUZZO: Five or six, to the</p> <p>19 best of my recollection.</p> <p>20 MR. KREBS: And the 100 percent due</p> <p>21 diligence of subprime loans related both</p> <p>22 to Bear and to EMC's pool purchases; is</p> <p>23 that correct?</p> <p>24 MR. MONGELLUZZO: Can you say that</p> <p>25 again, please?</p>

<p style="text-align: right;">Page 73</p> <p>1 AUDIO TRANSCRIPTION</p> <p>2 MR. KREBS: The 100 percent</p> <p>3 requirement or the 100 percent due</p> <p>4 diligence performed on subprime loans for</p> <p>5 both EMC and Bear, that 100 percent of</p> <p>6 those loans were reviewed?</p> <p>7 MR. MONGELLUZZO: Generally speaking,</p> <p>8 with the exceptions that I noted before,</p> <p>9 that's correct. The subprime loans, we</p> <p>10 would have done 100 percent due diligence.</p> <p>11 MR. KREBS: With respect -- let me go</p> <p>12 back, if I can, to the exception reports.</p> <p>13 Were there some deficiencies that were</p> <p>14 noted in the exception reports that were</p> <p>15 not material, and if so, how did you rank</p> <p>16 those or how were those ranked?</p> <p>17 MR. MONGELLUZZO: I think it would</p> <p>18 depend upon how you're defining material.</p> <p>19 MR. KREBS: Well, in point of fact,</p> <p>20 I'm going to ask you for how you define</p> <p>21 material. What is a material deficiency</p> <p>22 with respect to a loan?</p> <p>23 MR. MONGELLUZZO: I think there could</p> <p>24 be multiple material deficiencies for</p> <p>25 loans, so I don't think I could, off the</p>	<p style="text-align: right;">Page 75</p> <p>1 AUDIO TRANSCRIPTION</p> <p>2 MR. KREBS: What -- how did you rank</p> <p>3 those loans?</p> <p>4 MR. MONGELLUZZO: I'm not certain</p> <p>5 what you mean by how do we rank those</p> <p>6 loans.</p> <p>7 MR. KREBS: Well, you told us earlier</p> <p>8 that loans with deficiencies were ranked</p> <p>9 threes, correct?</p> <p>10 MR. MONGELLUZZO: I don't think I</p> <p>11 said that, but yes, that would be</p> <p>12 accurate.</p> <p>13 MR. KREBS: If loans ranked as threes</p> <p>14 had compensating factors, would their</p> <p>15 designation as threes be altered?</p> <p>16 MR. MONGELLUZZO: I think we need to</p> <p>17 take a step back. So typically, if you</p> <p>18 look at the scale of one, two and three, a</p> <p>19 one would be a loan that perfectly fit the</p> <p>20 underwriting guideline.</p> <p>21 MR. KREBS: Good. All right. I</p> <p>22 understand that.</p> <p>23 MR. MONGELLUZZO: A two typically is</p> <p>24 a loan that has some minor exception to it</p> <p>25 and has acceptable compensating factors,</p>
<p style="text-align: right;">Page 74</p> <p>1 AUDIO TRANSCRIPTION</p> <p>2 top of my head, define them all.</p> <p>3 MR. KREBS: Well, let me ask you</p> <p>4 this, let's suppose you have a DTI greater</p> <p>5 than 60, would it be material or not</p> <p>6 material if you had a loan with a DTI</p> <p>7 equal to 60?</p> <p>8 MR. MONGELLUZZO: As a policy, we</p> <p>9 didn't purchase loans with DTI's at</p> <p>10 60 percent.</p> <p>11 MR. KREBS: What was your policy with</p> <p>12 respect to the purchase of loans on DTI?</p> <p>13 MR. MONGELLUZZO: As best as I</p> <p>14 recall, the maximum DTI that we would ever</p> <p>15 purchase would be 55 percent.</p> <p>16 MR. KREBS: Was there any instances</p> <p>17 where loans had a 56 DTI and were</p> <p>18 nevertheless purchased?</p> <p>19 MR. MONGELLUZZO: Not that I am</p> <p>20 specifically aware of.</p> <p>21 MR. KREBS: Were there some</p> <p>22 deficiencies in loans which were deemed</p> <p>23 to -- which were deemed to be acceptable</p> <p>24 because they had compensating factors?</p> <p>25 MR. MONGELLUZZO: Yes.</p>	<p style="text-align: right;">Pag</p> <p>1 AUDIO TRANSCRIPTION</p> <p>2 so when you talk about compensating</p> <p>3 factors, most of those are what would be</p> <p>4 your twos.</p> <p>5 And then your threes are loans that</p> <p>6 have issues that need to be remediated.</p> <p>7 If we purchased a loan that had been</p> <p>8 previously made a three because we felt</p> <p>9 that there was a significant compensating</p> <p>10 factors, but it was beyond the judgment</p> <p>11 call of the due diligence firm, those we</p> <p>12 would then code as a four.</p> <p>13 MR. HINKLEY: Yeah, let me ask you</p> <p>14 about the compensating factors. Were you</p> <p>15 delegating the compensating factors to the</p> <p>16 due diligence firm or were you reviewing</p> <p>17 each exception and making that</p> <p>18 determination?</p> <p>19 MR. MONGELLUZZO: We -- the</p> <p>20 combination of both, so they were</p> <p>21 delegated to make that initial call</p> <p>22 themselves; however, all of the loans that</p> <p>23 would be rated a two would be reviewed by</p> <p>24 whoever the diligence manager was handling</p> <p>25 that transaction to make sure that the</p>

<p style="text-align: right;">Page 77</p> <p>1 AUDIO TRANSCRIPTION</p> <p>2 compensating factors that the diligence</p> <p>3 firm noted were sufficient to compensate</p> <p>4 for whatever the factor was.</p> <p>5 MR. HINKLEY: What if they were rated</p> <p>6 or ranked a three, were they allowed to</p> <p>7 develop compensating factors that --</p> <p>8 Clayton, for example?</p> <p>9 MR. MONGELLUZZO: Well, Clayton, if</p> <p>10 they felt that there were compensating</p> <p>11 factors but they were not comfortable</p> <p>12 making that judgment call of calling it a</p> <p>13 two, could call it a three, and if they</p> <p>14 called it a three and we thought that the</p> <p>15 compensating factors were sufficient</p> <p>16 enough, we would have them change that</p> <p>17 rating to a four so that we could</p> <p>18 distinguish between when they said that</p> <p>19 there were significant compensating</p> <p>20 factors and when we thought there were</p> <p>21 significant compensating factors.</p> <p>22 MR. KREBS: Is a four ranking for a</p> <p>23 loan a loan that was rejected or one that</p> <p>24 was accepted?</p> <p>25 MR. MONGELLUZZO: Say that again.</p>	<p style="text-align: right;">Page 79</p> <p>1 AUDIO TRANSCRIPTION</p> <p>2 MR. KREBS: Did you have any meetings</p> <p>3 in the year 2007 with the management of</p> <p>4 Clayton concerning the exception reports</p> <p>5 and summary exception reports regarding</p> <p>6 loans reviewed for the year 2006 and the</p> <p>7 first two quarters of 2007?</p> <p>8 MR. MONGELLUZZO: Could you ask the</p> <p>9 question again, please?</p> <p>10 MR. KREBS: Did you meet with -- did</p> <p>11 you meet with Clayton officials in 2007?</p> <p>12 MR. MONGELLUZZO: I don't recall, but</p> <p>13 quite possible, I spoke with them on a</p> <p>14 daily basis.</p> <p>15 MR. KREBS: Did you have a meeting</p> <p>16 with them at your offices?</p> <p>17 MR. MONGELLUZZO: Again, quite</p> <p>18 possible, we met on a fairly frequent</p> <p>19 basis.</p> <p>20 MR. KREBS: Do you know who Vicki</p> <p>21 Beal (phonetic) is?</p> <p>22 MR. MONGELLUZZO: I certainly do.</p> <p>23 MR. KREBS: Do you know who</p> <p>24 Miss O'Neill is, Miss Kerry O'Neill</p> <p>25 (phonetic) is?</p>
<p style="text-align: right;">Page 78</p> <p>1 AUDIO TRANSCRIPTION</p> <p>2 MR. KREBS: Was a ranking of four for</p> <p>3 a loan a signal that the loan had been</p> <p>4 rejected or had been accepted?</p> <p>5 MR. MONGELLUZZO: It would be a</p> <p>6 signal that the loan was accepted.</p> <p>7 MR. KREBS: Thank you.</p> <p>8 Do you have any notion as to how many</p> <p>9 loans Clayton reviewed for Bear Stearns</p> <p>10 and EMC, loan pools that is, how many</p> <p>11 loans were contained in the loan pools</p> <p>12 that they reviewed from the first quarter</p> <p>13 of 2006 through the second quarter of</p> <p>14 2007?</p> <p>15 MR. MONGELLUZZO: I would have no</p> <p>16 idea offhand.</p> <p>17 MR. KREBS: If I told you that</p> <p>18 Clayton says that they had 72,379 loans</p> <p>19 that were so reviewed, would you agree or</p> <p>20 disagree with that or would you have an</p> <p>21 opinion?</p> <p>22 MR. MONGELLUZZO: I wouldn't agree or</p> <p>23 disagree because I don't have any facts to</p> <p>24 know whether that number is accurate or</p> <p>25 not accurate.</p>	<p style="text-align: right;">Page 80</p> <p>1 AUDIO TRANSCRIPTION</p> <p>2 MR. MONGELLUZZO: I do.</p> <p>3 MR. KREBS: Did you meet with both of</p> <p>4 them during 2007 for the purpose of</p> <p>5 reviewing reports generated by Clayton for</p> <p>6 the year 2006 and the first two quarters</p> <p>7 of 2007?</p> <p>8 MR. MONGELLUZZO: Again, I don't</p> <p>9 recall, but it's certainly a possibility.</p> <p>10 MR. HINKLEY: When did you -- you</p> <p>11 started using the four as the waiver type</p> <p>12 of loan or loan that was originally</p> <p>13 rejected as a three but now -- then made a</p> <p>14 four, what year did you start using that</p> <p>15 code to describe your waiver?</p> <p>16 MR. MONGELLUZZO: As I said earlier,</p> <p>17 I don't recall when we instituted that</p> <p>18 process change.</p> <p>19 MR. HINKLEY: But would the due</p> <p>20 diligence firms always know the -- that</p> <p>21 you waived a particular loan?</p> <p>22 MR. MONGELLUZZO: If we changed -- if</p> <p>23 you're asking if we changed the coding,</p> <p>24 would the diligence firm be aware of that,</p> <p>25 the answer is yes.</p>

<p style="text-align: right;">Page 81</p> <p>1 AUDIO TRANSCRIPTION 2 MR. KREBS: When the due diligence 3 firm agreed with Bear Stearns or EMC to 4 undertake a review of a loan pool, what 5 standards were applied in connection with 6 that pool reviewed? 7 MR. MONGELLUZZO: I'm not sure what 8 you mean by what standards. 9 MR. KREBS: How did the due diligence 10 firm know what standard to apply in order 11 to make a determination that a loan was a 12 one or a two or a three or a four? I'm 13 sorry, you made the determination about 14 fours. How did they know that? 15 MR. MONGELLUZZO: So the diligence 16 firms all had a scope of review of what 17 documents they were supposed to review in 18 a file, and they would also get a set of 19 underwriting guidelines for the pool as 20 well as whatever business or overlays that 21 there were, so they would use the 22 conjunction of those items to perform the 23 due diligence review. 24 MR. HINKLEY: So the underwriting 25 guidelines, were they the originator's</p>	<p style="text-align: right;">Page 83</p> <p>1 AUDIO TRANSCRIPTION 2 were at EMC, Bear Stearns from 2004 to 3 2007. Did you see any deterioration in 4 the market in that period, and when, when 5 did you see a problem? 6 MR. MONGELLUZZO: How are you 7 defining deterioration? 8 MR. HINKLEY: Deterioration in 9 underwriting standards. 10 MR. MONGELLUZZO: Deterioration in 11 underwriting standards. I don't think -- 12 I think that there were, over periods of 13 time, changes in underwriting guidelines. 14 I wouldn't characterize that as a 15 deterioration of underwriting standards. 16 Standards are -- excuse me. 17 MR. HINKLEY: So you're saying loans 18 were underwritten to the same high 19 standard that they always were throughout 20 the period? 21 MR. MONGELLUZZO: I'm not sure I 22 understand your question. 23 MR. HINKLEY: You saw no decrease in 24 the quality of the underwriting from the 25 period 2004 to 2007?</p>
<p style="text-align: right;">Page 82</p> <p>1 AUDIO TRANSCRIPTION 2 underwriting guidelines? 3 MR. MONGELLUZZO: They could be one 4 of two things, so EMC had a published set 5 of underwriting guidelines to which we 6 would purchase loans that were 7 underwritten to those guidelines or if a 8 seller chose to -- wanted to sell some -- 9 their underwriting guidelines, those 10 underwriting guidelines would have to be 11 submitted and approved, and they may be 12 approved in total or in part, which is 13 where you would get the overlay from. 14 So we might approve somebody's 15 guidelines and then make exceptions and 16 say we wouldn't buy loans with these 17 certain characteristics in your 18 underwriting guidelines. 19 MR. KREBS: So you would superimpose 20 your own overlays over top of those 21 underwriting guidelines; is that correct? 22 MR. MONGELLUZZO: That is a 23 possibility, not necessarily, but it would 24 be a possibility. 25 MR. HINKLEY: Question about, you</p>	<p style="text-align: right;">Pag</p> <p>1 AUDIO TRANSCRIPTION 2 MR. MONGELLUZZO: I'm not sure how to 3 answer the question. I'm not sure if you 4 are specifically talking about guidelines 5 or what underwriters did as procedural 6 facts, so I'm not sure how to answer your 7 question. 8 MR. HINKLEY: Because, 9 Mr. Mongelluzzo, did you note an increase 10 in acceptable LTV during that period? 11 MR. MONGELLUZZO: Did I note an -- 12 MR. HINKLEY: An increase -- 13 MR. MONGELLUZZO: I mean, that be a 14 change in guidelines or products that are 15 available, so yes. 16 MR. HINKLEY: Okay. 17 MR. MONGELLUZZO: Consistently over 18 time, there's always changes to guidelines 19 and product types. 20 MR. HINKLEY: Right. And the change 21 that I was talking about was an increase 22 in LTV, you did note that during that 23 time? 24 MR. MONGELLUZZO: I believe in some 25 products and in some guidelines, they were</p>

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(21) Page 81 - Page 84

<p style="text-align: right;">Page 85</p> <p>1 AUDIO TRANSCRIPTION</p> <p>2 increases in LTV.</p> <p>3 MR. HINKLEY: And what would those</p> <p>4 products have been, sir?</p> <p>5 MR. MONGELLUZZO: That specifically,</p> <p>6 you know, as a general matter, I could say</p> <p>7 that, yes, I was aware. Specifically it</p> <p>8 would be based upon the product and the</p> <p>9 guidelines, and that specific recollection</p> <p>10 I don't have.</p> <p>11 MR. HINKLEY: And during that time,</p> <p>12 did you notice a decrease in the average</p> <p>13 FICO score in subprime?</p> <p>14 MR. MONGELLUZZO: Again, I think it's</p> <p>15 the same answer with LTV. I think certain</p> <p>16 products, certain guidelines, there would</p> <p>17 have been, you know, would have been</p> <p>18 changes.</p> <p>19 MR. HINKLEY: So -- right, those</p> <p>20 changes, would they have gone down, and I</p> <p>21 guess, you know, I was asking about</p> <p>22 subprime?</p> <p>23 MR. MONGELLUZZO: Well, I think in --</p> <p>24 for some guidelines and for some products,</p> <p>25 they may have gone down, and in others,</p>	<p style="text-align: right;">Page 87</p> <p>1 AUDIO TRANSCRIPTION</p> <p>2 would have been some sort of analytical</p> <p>3 function somewhere else in the firm.</p> <p>4 MR. HINKLEY: Okay. We've now</p> <p>5 answered the questions about guidelines.</p> <p>6 In your experience, was there a uniform --</p> <p>7 was the underwriting quality, that is the</p> <p>8 extent to which the loans that you were</p> <p>9 reviewing met guidelines, was that going</p> <p>10 up, down or did you see no appreciable</p> <p>11 difference over time? In other words, how</p> <p>12 many more -- were you getting more threes</p> <p>13 or was it basically staying level</p> <p>14 throughout?</p> <p>15 MR. MONGELLUZZO: I think that answer</p> <p>16 would vary by each individual loan pool,</p> <p>17 individual time frames, you know, so I</p> <p>18 don't think that there's a</p> <p>19 one-size-fits-all answer for that.</p> <p>20 MR. HINKLEY: So you didn't see any</p> <p>21 trends over the period you were there from</p> <p>22 2004, 2007 in terms of quality of</p> <p>23 underwriting, it was ad hoc, sometimes the</p> <p>24 underwriting was good, sometimes it was</p> <p>25 bad, but there was no real trend?</p>
<p style="text-align: right;">Page 86</p> <p>1 AUDIO TRANSCRIPTION</p> <p>2 they may have gone up. I don't think it's</p> <p>3 a one-size-fits-all universal answer.</p> <p>4 MR. HINKLEY: You couldn't say in</p> <p>5 aggregate that you observed FICO's</p> <p>6 decreasing during that time period?</p> <p>7 MR. MONGELLUZZO: I don't think, you</p> <p>8 know, that I looked at aggregated data of</p> <p>9 what FICO scores were or, you know, what</p> <p>10 LTV's were.</p> <p>11 MR. HINKLEY: Okay. But you were</p> <p>12 looking at aggregated data in the pools in</p> <p>13 the Excel spreadsheet, correct?</p> <p>14 MR. MONGELLUZZO: Yeah, but I wasn't</p> <p>15 looking at things like weighted average</p> <p>16 FICO or weighted LTV of the pools, so I</p> <p>17 couldn't tell you whether, you know, over</p> <p>18 time, that those weighted averages went up</p> <p>19 or down.</p> <p>20 MR. HINKLEY: Okay. Wouldn't that</p> <p>21 have been present on the tape?</p> <p>22 MR. MONGELLUZZO: Not -- my function</p> <p>23 wasn't to be looking at those</p> <p>24 characteristics in terms of trends of</p> <p>25 weighted averages going up or down, that</p>	<p style="text-align: right;">Page 88</p> <p>1 AUDIO TRANSCRIPTION</p> <p>2 MR. MONGELLUZZO: I'm not sure how to</p> <p>3 answer that question for you.</p> <p>4 MR. HINKLEY: And -- well, what don't</p> <p>5 you understand? You were in charge of</p> <p>6 checking the underwriting of mortgages</p> <p>7 that Bear Stearns was buying, and over</p> <p>8 time, you didn't notice whether the</p> <p>9 underwriting was getting better or worse?</p> <p>10 MR. MONGELLUZZO: I think you are</p> <p>11 defining underwriting as better or worse</p> <p>12 differently than what our function was.</p> <p>13 Our function was to make sure that</p> <p>14 the loans fell within and met the</p> <p>15 guidelines, and if they didn't fall within</p> <p>16 and meet the guidelines, that there were</p> <p>17 acceptable compensating factors for them.</p> <p>18 I think you're asking a question saying</p> <p>19 whether or not those underwriting</p> <p>20 guidelines were better or worse.</p> <p>21 MR. HINKLEY: No, I'm not asking that</p> <p>22 question at all. I think I've made that</p> <p>23 quite clear. I actually -- we went</p> <p>24 through the underlying guidelines and how</p> <p>25 they may have varied and, in fact, gotten</p>

<p>Page 89</p> <p>1 AUDIO TRANSCRIPTION 2 more liberal. 3 My question is: Were the people who 4 were writing the loans, were they meeting 5 the reduced guidelines or not, was the 6 standard of underwriting going up, down or 7 not -- staying the same? 8 MR. MONGELLUZZO: I would say, 9 generally speaking, that it was staying 10 the same. 11 MR. HINKLEY: Thank you. 12 UNIDENTIFIED SPEAKER: All right. I 13 just want to drill down a little bit, for 14 your underwriters, what were the ideal 15 number of -- average number of loans for 16 each reviewer to do on a daily basis, what 17 were you looking for, was it five, ten, 18 twelve loans, you tell me? 19 MR. MONGELLUZZO: Are you talking 20 about the contract underwriters from the 21 diligence firms? 22 UNIDENTIFIED SPEAKER: Yes. 23 MR. MONGELLUZZO: They didn't -- we 24 didn't specify how many files they had to 25 look at in a day in any shape, manner or</p>	<p>Page 91</p> <p>1 AUDIO TRANSCRIPTION 2 procurement, and so those contracts would 3 have spelled out what the SLA's were in 4 terms of turnaround time, in terms of 5 reporting criteria and what the contract 6 price per file review would be, but I 7 don't remember the details of what those 8 numbers would be. 9 UNIDENTIFIED SPEAKER: What 10 percentage of your business did Clayton 11 do? 12 MR. MONGELLUZZO: I don't recall. 13 UNIDENTIFIED SPEAKER: Was it 14 majority, was it -- give me your best 15 guess. 16 MR. MONGELLUZZO: My best guess would 17 be overall that they were probably about 18 40 percent. I would say that Watterson 19 Prime was another 40 percent. And the 20 MDMC was about 20 percent. Those numbers 21 could flux a little bit in any direction, 22 but, you know, we didn't want to be in a 23 situation where any one diligence vendor 24 had the vast majority of, you know, of our 25 business.</p>
<p>Page 90</p> <p>1 AUDIO TRANSCRIPTION 2 form. 3 UNIDENTIFIED SPEAKER: Now, do you 4 ever pay the underwriters, the due 5 diligence firms a bonus for doing a quick 6 turnaround? 7 MR. MONGELLUZZO: No, we paid 8 strictly on a per file basis. 9 UNIDENTIFIED SPEAKER: What was that 10 per file basis? 11 MR. MONGELLUZZO: It would have 12 varied from time to time, from firm to 13 firm. 14 UNIDENTIFIED SPEAKER: Well, for 15 Clayton, tell me what was the per file 16 basis. 17 MR. MONGELLUZZO: I don't remember 18 the details of what the contract was, you 19 know, and again, it would have changed 20 from time to time. 21 UNIDENTIFIED SPEAKER: Was there a 22 contract for each and every deal? 23 MR. MONGELLUZZO: No, there was a 24 process in which contracts with the 25 diligence firms were signed through global</p>	<p>Page 91</p> <p>1 AUDIO TRANSCRIPTION 2 UNIDENTIFIED SPEAKER: So would 3 Clayton be more on subprime or alt A? 4 MR. MONGELLUZZO: I think they did a 5 balance of both. 6 UNIDENTIFIED SPEAKER: So about 7 50 percent of that 40 percent that you 8 just mentioned? 9 MR. MONGELLUZZO: I think that would 10 vary from time to time. I think you could 11 have certain periods of time where they 12 were heavier in one and lighter in the 13 other, just depending upon where else we 14 were sourcing the business and what the 15 volumes were. 16 UNIDENTIFIED SPEAKER: One of the 17 things -- you know, we just have a few 18 more questions. When you had the 19 exception reports, how many exceptions did 20 you have to approve each day between -- 21 let's say in the early years between you 22 and Miss Sears? 23 MR. MONGELLUZZO: Like how many 24 exceptions were in a particular pool of 25 loans?</p>

<p style="text-align: right;">Page 93</p> <p>1 AUDIO TRANSCRIPTION</p> <p>2 UNIDENTIFIED SPEAKER: Well, on a</p> <p>3 daily basis, you know, roughly, you know,</p> <p>4 did you get 20 exceptions or were there</p> <p>5 100 exceptions on a daily basis?</p> <p>6 MR. MONGELLUZZO: That number could</p> <p>7 vary dramatically and widely on a daily</p> <p>8 basis. I don't think it was anywhere near</p> <p>9 a consistent enough number that I could</p> <p>10 even hazard a guess.</p> <p>11 UNIDENTIFIED SPEAKER: But was it</p> <p>12 over a hundred on certain days, so were</p> <p>13 you reviewing 100 loan files?</p> <p>14 MR. MONGELLUZZO: Well, again, we</p> <p>15 didn't review loan files, we reviewed</p> <p>16 reporting of findings in files.</p> <p>17 UNIDENTIFIED SPEAKER: I mean, to</p> <p>18 change a three to a four, you had to --</p> <p>19 they -- the due diligence firms was</p> <p>20 relying upon your, you know, approval, and</p> <p>21 wouldn't you have to go into the loan file</p> <p>22 to see the compensating factors?</p> <p>23 MR. MONGELLUZZO: No, you would look</p> <p>24 at the reporting from the diligence firm,</p> <p>25 not look in the loan file. So we never</p>	<p style="text-align: right;">Page 95</p> <p>1 AUDIO TRANSCRIPTION</p> <p>2 that decision.</p> <p>3 So they were given a limited range of</p> <p>4 what exceptions and what compensating</p> <p>5 factors they could accept, and even though</p> <p>6 they may think that something was</p> <p>7 acceptable, we wanted to be the final</p> <p>8 party to look at that and review that</p> <p>9 because ultimately we would be the ones</p> <p>10 purchasing the loan.</p> <p>11 UNIDENTIFIED SPEAKER: And you didn't</p> <p>12 do this yourself, at the end, you had</p> <p>13 people doing it that worked under you,</p> <p>14 correct, you were directing them?</p> <p>15 MR. MONGELLUZZO: I had people that I</p> <p>16 was directing, but I always handled some</p> <p>17 number of transactions, that I was looking</p> <p>18 at them myself directly.</p> <p>19 UNIDENTIFIED SPEAKER: Who were the</p> <p>20 people that worked for you, what were</p> <p>21 their names, in the end?</p> <p>22 MR. MONGELLUZZO: I'm not sure I</p> <p>23 could give you all. I could give you</p> <p>24 some. So Patty Sears (phonetic), Joe</p> <p>25 Carion (phonetic), Maria Hargus</p>
<p style="text-align: right;">Page 94</p> <p>1 AUDIO TRANSCRIPTION</p> <p>2 physically looked in a loan file, unless</p> <p>3 we were on site somewhere, then we would</p> <p>4 look physically in a loan file, but if</p> <p>5 you're talking about just looking at the</p> <p>6 electronic reporting, the electronic</p> <p>7 reporting would spell out for us what the</p> <p>8 exception was and what the compensating</p> <p>9 factors was, that was data and information</p> <p>10 that the diligence firm was responsible</p> <p>11 for providing to us.</p> <p>12 UNIDENTIFIED SPEAKER: Okay. So you</p> <p>13 didn't come up with additional</p> <p>14 compensating factors, you were relying</p> <p>15 upon Clayton or PPC and the rest?</p> <p>16 MR. MONGELLUZZO: That is correct.</p> <p>17 UNIDENTIFIED SPEAKER: So essentially</p> <p>18 Clayton would say that there were not</p> <p>19 sufficient compensating factors and you</p> <p>20 would overrule them?</p> <p>21 MR. MONGELLUZZO: They would say that</p> <p>22 they weren't sure, you know, and there</p> <p>23 were certain circumstances where we would</p> <p>24 say to them that we wouldn't want them to</p> <p>25 make that decision, we would want to make</p>	<p style="text-align: right;">Page 96</p> <p>1 AUDIO TRANSCRIPTION</p> <p>2 (phonetic), Faith Hoden (phonetic), Jackie</p> <p>3 Donahue (phonetic). Those are the ones I</p> <p>4 remember. There may have been others</p> <p>5 intermittently, you know, in and out, but</p> <p>6 I think that would have been the group at,</p> <p>7 you know, at the end, so to speak.</p> <p>8 MR. CUNICELLI: All right. I've got</p> <p>9 12:21. We'll go off record. Thank you.</p> <p>10 (Whereupon the recording ended)</p> <p>11</p> <p>12</p> <p>13</p> <p>14</p> <p>15</p> <p>16</p> <p>17</p> <p>18</p> <p>19</p> <p>20</p> <p>21</p> <p>22</p> <p>23</p> <p>24</p> <p>25</p>

1 C E R T I F I C A T E
2
3 E OF NEW YORK)
4 : ss
5 TY OF RICHMOND)
6
7 I, RITA M. PERSICHETTY, a Notary Public within
8 for the State of New York, do hereby certify
9 the within is a true and accurate transcript
10 he audio recording taken on September 29, 2010.
11 I further certify that I am not related to any
12 he parties to this action by blood or marriage;
13 that I am in no way interested in the outcome
14 his matter.
15 IN WITNESS WHEREOF, I have hereunto set my
16 this 2nd day of September, 2011.
17
18
19
20
21 _____
21 M. PERSICHETTY
22
23
24
25

FCIC INTERVIEW OF
JOHN MONGELLUZZOAUDIO TRANSCRIPTION
September 29, 2010

	6:17	Absolutely (2)	18:23;28:25;81:3	68:19
0	2009 (1)	58:8,16	agreement (1)	around (2)
	6:18	abstract (3)	11:2	23:24;47:13
04 (1)	2010 (2)	10:8,16;13:22	ahead (4)	arrange (1)
60:8	2:6;4:7	accept (3)	14:17;20:11;58:19;	72:12
05 (1)	25 (6)	62:2;63:6;95:5	61:19	ascent (1)
60:8	23:22;24:24;10:12;	acceptable (7)	allowed (3)	2:17
	27:8;28:8	53:14;65:23;74:23;	44:16,19;77:6	asset (5)
1	29 (1)	75:25;84:10;88:17;95:7	along (1)	18:2;31:6,8,12;59:3
	2:5	accepted (3)	36:23	assets (1)
1,000 (1)	2T (2)	77:24;78:4,6	alt (4)	57:25
62:23	61:7,11	accompanied (4)	26:21;28:7,11;92:3	assignment (1)
10:30 (1)		2:8;10:8,15;13:22	altered (1)	11:16
2:7	4	accurate (3)	75:15	assignments (2)
100 (27)		75:12;78:24,25	although (2)	9:11,15
22:4,7,11,25;23:19;	40 (3)	achieved (1)	13:4;14:5	associate's (1)
24:15;25:13,14;26:6,17;	91:18,19;92:7	5:6	always (9)	5:7
27:9;28:19,51;15,18,21;	5	acquired (1)	26:17;39:23;50:6;	association (1)
52:3,7;57:15,16,24;		17:6	59:5;67:19;80:20;83:19;	53:8
72:20;73:2,3,5,10;93:5,		acquiring (1)	84:18;95:16	assume (1)
13	5,000 (1)	17:14	amazing (1)	16:14
1001 (1)	62:22	actual (3)	62:11	assumptions (2)
4:16	50 (1)	40:10;42:19;44:12	American (1)	10:2;13:16
11:25 (1)	92:7	actually (6)	24:18	assurance (1)
53:25	55 (1)	33:5;39:20;40:7;	Amerquest (3)	7:15
11:36 (1)	74:15	42:10;65:18;88:23	23:13,15,23	attendance (1)
54:5	56 (1)	ad (1)	among (1)	4:8
111-21 (1)	74:17	87:23	55:5	attended (2)
3:22	6	added (1)	analytical (1)	5:5,8
12:21 (1)		46:7	87:2	attorney (3)
96:9	60 (3)	adding (1)	annual (1)	9:20;13:10;41:11
15 (2)	74:5,7,10	60:5	49:19	attorney's (3)
4:6;29:2	7	additional (2)	annually (3)	10:7,14;13:21
18 (1)		60:5;94:13	43:3;47:25;49:4	audible (1)
4:15		additionally (1)	answered (1)	4:19
1984 (1)	72,379 (1)	47:14	87:5	AUDIO (96)
5:21	78:18	adversarial (2)	apologize (2)	2:1,3;1:4;1:5;1:6;1;
1987 (1)		25:24;26:2	33:12;61:18	7:1;8:1;9:1;10:1;11:1;
5:24	8	advised (1)	applicable (2)	12:1;13:1,5;14:1;15:1;
1990 (1)		4:12	9:20;13:10	16:1;17:1;18:1;19:1;
6:3	85 (1)	affiliation (1)	applied (1)	20:1;21:1;22:1;23:1;
2	5:22	2:21	81:5	24:1;25:1;26:1;27:1;
	88 (1)	again (29)	apply (1)	28:1;29:1;30:1;31:1;
20 (4)	5:24	10:11;13:25;16:19;	81:10	32:1;33:1;34:1;35:1;
62:24;63:7;91:20;93:4	9	17:11;24:2,23;25:4,7,15;	appraisal (1)	36:1;37:1;38:1;39:1;
2004 (16)		26:18;37:13;43:5;44:4;	34:10	40:1;41:1;42:1;43:1;
6:15;22:6;23:24;		45:16;46:25;51:2,25;	appreciable (1)	44:1;45:1;46:1;47:1;
25:12,16;26:3;36:14,18;	91 (1)	52:9,15;55:25;70:24;	87:10	48:1;49:1;50:1;51:1;
43:8;46:4;59:25;68:5;	6:3	72:25;77:25;79:9,17;	appropriate (1)	52:1;53:1;54:1;55:1;
71:12;83:2,25;87:22	93/'94 (1)	80:8;85:14;90:19;93:14	66:15	56:1;57:1;58:1;59:1;
2005 (5)	6:6	agencies (1)	approval (1)	60:1;61:1;62:1;63:1;
25:14;37:6;44:9;46:5;	96ish (1)	50:22	93:20	64:1;65:1;66:1;67:1;
59:25	6:8	agency (1)	approve (2)	68:1;69:1;70:1;71:1;
2006 (11)	98/'99 (1)	4:13	82:14;92:20	72:1;73:1;74:1;75:1;
35:9;36:9;37:6;38:4,6;	6:10	aggregate (3)	approved (2)	76:1;77:1;78:1;79:1;
10;44:9;54:8;78:13;	A	60:11;71:8;86:5	82:11,12	80:1;81:1;82:1;83:1;
79:6;80:6		aggregated (4)	approximate (3)	84:1;85:1;86:1;87:1;
2007 (12)	able (4)	22:23;31:10;86:8,12	5:21;25:23;35:5	88:1;89:1;90:1;91:1;
36:9;68:6;71:12;	5:14;63:24;66:17;69:8	ago (1)	approximately (1)	92:1;93:1;94:1;95:1;
78:14;79:3,7,11;80:4,7;	above (1)	44:20	2:6	96:1
83:3,25;87:22	52:13	agree (2)	area (2)	audit (10)
2008 (1)		78:19,22	43:6,13	40:19;41:6;42:18;
		agreed (3)	areas (1)	47:25;48:12;54:7,13,14,

Min-U-Script®

Ellen Grauer Court Reporting Co. LLC

(1) 04 - audit

FCIC INTERVIEW OF
JOHN MONGELLUZZOAUDIO TRANSCRIPTION
September 29, 2010

18:21 audited (1) 40:12 auditing (1) 52:17 audits (5) 42:25;48:5,21;49:4,15 available (3) 47:19,23;84:15 average (3) 85:12;86:15;89:15 averages (2) 86:18,25 awarded (1) 72:7 aware (9) 15:6;24:20,24;25:5,8; 56:12;74:20;80:24;85:7 away (2) 43:8;69:24	20:22;68:3,10,23;69:13; 18;70:2,20;71:10,19,23; 72:22;73:5;78:9;81:3; 83:2;88:7 became (2) 20:25;56:12 began (1) 37:23 behalf (2) 18:20;32:23 belief (1) 19:23 below (1) 20:21 besides (3) 29:19;40:9;68:15 best (15) 5:15;16:21;35:8; 37:20;49:21;50:3;55:5; 56:11;60:3;68:21;71:15; 72:19;74:13;91:14,16 better (7) 30:3;46:21;50:5; 55:17;88:9,11,20 beyond (2) 52:14;76:10 bid (9) 18:8;19:7,10,11,24,25; 20:9,13,14 bidding (1) 72:6 bids (1) 18:10 bigger (1) 51:11 bipartisan (1) 3:23 bit (5) 18:6;35:11;51:14; 89:13;91:21 blank (1) 11:17 bleeped (1) 44:2 Bob (3) 2:9;3:6;69:7 bonus (1) 90:5 book (1) 49:7 Borgers (38) 2:8;3:2,2;4:21,22; 5:10,17;6:19,24;7:22; 8:3;21:4,4,8,15,22;22:6; 12;23:3,6,14,23;24:4,8; 13,18,22;25:2,6,9,12; 43:4,4,11,18,24;44:10, 21 boss (1) 43:21 both (9) 7:16;31:19;41:3; 71:18;72:21;73:5;76:20;	80:3;92:5 bought (1) 68:4 boy (1) 3:3 break (3) 53:20,24,25 brief (1) 4:24 bringing (2) 50:25;51:7 brought (2) 36:19;50:20 build (3) 37:7;50:2,4 building (1) 53:9 bulk (15) 7:13;27:17,19;67:15; 69:11,14,21;70:7,14,16, 18;71:5,8,13,18 business (7) 37:11;42:4;47:12; 81:20;91:10,25;92:14 busy (2) 39:14,17 buy (5) 70:3,4;71:11,24;82:16 buying (1) 88:7	Carion (1) 95:25 case (1) 59:21 causes (1) 3:25 center (2) 40:24;41:8 centers (1) 41:6 Century (1) 24:22 certain (13) 24:3,6;35:25;44:8; 45:16;67:4;75:4;82:17; 85:15,16;92:11;93:12; 94:23 certainly (3) 15:2;79:22;80:9 certificate (1) 9:3 certified (9) 9:3,9,25;10:6,13;13:9, 15,20;14:3 chain (1) 8:22 chair (1) 52:23 chaired (1) 50:19 change (9) 26:13;27:25;56:22; 66:2;77:16;80:18;84:14, 20;93:18 changed (9) 35:25;36:7;40:2;56:9; 65:17;66:21;80:22,23; 90:19 changes (4) 83:13;84:18;85:18,20 channel (3) 67:13;69:14;71:2 characteristics (2) 82:17;86:24 characterize (1) 83:14 charge (1) 88:5 charged (2) 3:24;4:4 Chase (1) 5:25 checking (1) 88:6 checklists (1) 45:8 Choice (1) 25:6 chose (2) 53:15;82:8 circumstances (1) 94:23 clarification (1)	55:24 class (1) 49:21 Clayton (28) 27:23;30:5,10,15; 32:10;41:3;47:8;54:9, 11;55:5;57:5,9,12,14,22; 61:7;77:8,9;78:9,18; 79:4,11;80:5;90:15; 91:10;92:3;94:15,18 clean (1) 29:15 clear (6) 25:20;26:4;30:16; 58:14;63:9;88:23 cleared (2) 62:4;63:11 close (2) 37:10;61:23 code (7) 4:15;65:18,18;66:19, 23;76:12;80:15 coding (2) 66:21;80:23 collapse (2) 4:2,2 collateral (1) 15:23 collective (1) 50:24 college (4) 4:25;5:4,5,6 combination (1) 76:20 comfortable (2) 29:8;77:11 Commission (5) 2:5,9;4:4,7,11 commissioners (1) 3:24 committee (6) 48:16;50:9,20,21; 52:24;53:2 common (1) 32:19 communicate (1) 45:12 Community (2) 5:6,23 companies (1) 26:5 company (2) 67:22;69:9 compel (1) 4:7 compensate (1) 77:3 compensating (19) 74:24;75:14,25;76:2, 9,14,15;77:2,7,10,15, 21;88:17;93:22;94:8, 19;95:4 complete (1)
B				
bachelor's (1) 5:8 back (9) 7:11;16:19;28:7; 36:12;52:15;53:22;54:4; 73:12;75:17 background (4) 3:20;4:24;5:12;8:5 backgrounds (1) 38:17 bad (1) 87:25 balance (1) 92:5 Bank (2) 5:20,23 Barmore (3) 32:13,14;34:16 base (1) 51:11 based (3) 46:18;56:2;85:8 basic (2) 57:4;69:9 basically (5) 36:21;39:13;65:22,25; 87:13 basis (13) 30:24;31:14;45:14; 47:3;79:14,19;89:16; 90:8,10,16;93:3,5,8 Beal (1) 79:21 Bear (45) 6:15,16,20;7:17;8:3, 11,12;12:18,22;14:12; 17:7;18:20;32:7,19; 33:16,20,25;35:14;36:4; 50:14;51:15;52:3,25; 55:17;62:2;63:5;67:9,	better (7) 30:3;46:21;50:5; 55:17;88:9,11,20 beyond (2) 52:14;76:10 bid (9) 18:8;19:7,10,11,24,25; 20:9,13,14 bidding (1) 72:6 bids (1) 18:10 bigger (1) 51:11 bipartisan (1) 3:23 bit (5) 18:6;35:11;51:14; 89:13;91:21 blank (1) 11:17 bleeped (1) 44:2 Bob (3) 2:9;3:6;69:7 bonus (1) 90:5 book (1) 49:7 Borgers (38) 2:8;3:2,2;4:21,22; 5:10,17;6:19,24;7:22; 8:3;21:4,4,8,15,22;22:6; 12;23:3,6,14,23;24:4,8; 13,18,22;25:2,6,9,12; 43:4,4,11,18,24;44:10, 21 boss (1) 43:21 both (9) 7:16;31:19;41:3; 71:18;72:21;73:5;76:20;	calculate (2) 34:10,12 California (1) 42:13 call (6) 53:21;61:7;76:11,21; 77:12,13 called (5) 31:8,25;32:3;35:17; 77:14 calling (1) 77:12 can (25) 4:9;5:15,18;6:19;8:3, 4;15:12;16:19;20:12; 28:16;29:10;43:9;48:9; 50:3;51:9,24;54:10; 56:20;62:10;63:8,11; 69:4,24;72:24;73:12 capacity (3) 46:17;47:14,19 Capital (7) 6:9,10,13,14,20;7:3,12 car (2) 50:3,5 career (1) 5:11 Carey (8) 2:10;3:8,8;27:16; 53:19,23;69:7,23	C	

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Ellen Grauer Court Reporting Co. LLC

(2) audited - complete

FCIC INTERVIEW OF
JOHN MONGELLUZZOAUDIO TRANSCRIPTION
September 29, 2010

8:22	contracts (2)		14:73:18	73:4,10;76:11,16,24;
completed (1)	90:24;91:2		depending (4)	77:2,80:20,24;81:2,9,15,
31:3	contributions (1)	D	16:14;47:22;66:15;	23;89:21;90:5,25;91:23;
compliance (7)	51:7		92:13	93:19,24;94:10
41:14,23,24,25;42:2,5,	control (1)	daily (14)	depository (1)	diligenced (1)
22	12:6	30:24;31:4;60:10,11,	17:2	72:11
component (1)	controls (1)	17,20,23,25;61:2;79:14;	describe (1)	diligences (1)
29:19	30:2	89:16;93:3,5,7	80:15	36:25
composing (1)	conversation (1)	data (7)	described (2)	direct (2)
4:5	69:21	19:5;31:13;41:11;	15:19;58:23	16:5,16
computer (1)	coordinate (1)	42:11;86:8,12,94:9	designated (1)	directed (2)
42:20	38:14	2:5	11:17	21:15,20
computers (1)	copies (3)	dates (5)	designation (1)	directing (2)
42:11	9:9,19;13:9	5:12,14;25:22;36:11,	75:15	95:14,16
concerning (2)	copy (8)	15	desire (4)	direction (1)
4:16;79:4	4:10;9:3,25;10:6,13;	day (2)	4:11;32:7,21,24	91:21
conduct (3)	13:15,20;14:3	89:25;92:20	desk (4)	directive (1)
27:11;30:12;31:17	corporate (3)	days (1)	18:21;19:12;21:13;	21:12
conducted (4)	40:25;41:4,7	93:12	72:5	directly (1)
26:15;47:25;48:5;49:4	correctly (1)	deal (5)	destined (2)	95:18
conducting (1)	42:16	26:7,8;57:17,23;90:22	15:14;17:21	disagree (2)
30:24	counsel (6)	deals (6)	detailed (1)	78:20,23
Congress (1)	3:11,14;41:12,22;	22:19;24:6;26:3;	8:5	disposition (2)
4:6	42:8,14	57:10,12,14	details (6)	14:20;16:15
conjunction (1)	counterparty (4)	December (1)	19:13,16;20:22;54:20;	distinct (1)
81:22	19:9;20:16;28:12;	4:6	90:18;91:7	66:23
connection (12)	29:21	decision (3)	deterioration (5)	distinction (1)
8:18;10:21;11:4,23;	Countrywide (2)	46:12;94:25;95:2	83:3,7,8,10,15	43:16
15:20;18:25;26:14;32:8,	23:8,11	decrease (2)	determination (4)	distinguish (1)
22;34:5;36:4;81:5	County (1)	83:23;85:12	18:13;76:18;81:11,13	77:18
consensus (1)	5:6	decreased (1)	determine (4)	document (4)
53:9	couple (2)	40:18	28:20;29:7;42:9;46:12	11:3;12:10,16;64:9
consent (1)	25:3;26:18	decreasing (1)	develop (1)	documentation (16)
2:15	cover (1)	86:6	77:7	12:12;16:6,7;61:8,14,
considered (1)	70:22	deemed (2)	differ (1)	16;63:24,25;64:2,5,14,
34:5	created (2)	74:22,23	50:15	17,19;65:5,5,9
consistent (1)	34:22;48:14	deficiencies (5)	difference (3)	documents (12)
93:9	credit (7)	63:21;73:13,24;74:22;	27:6;67:12;87:11	8:12,15;11:14;12:6,7,
Consistently (1)	30:2;34:8,11,12,13;	75:8	different (11)	10,13;15:19,21;16:10;
84:17	38:17;41:18	deficiency (3)	27:5;30:23;31:5;51:2;	64:8;81:17
consists (1)	Crisis (2)	64:9;65:11;73:21	55:22;58:24;65:15,16;	domestic (1)
3:23	2:4;4:2	define (5)	67:24,24;71:2	4:3
constantly (2)	criteria (3)	35:7;43:9;44:13;	differently (1)	Donahue (1)
49:12;56:15	34:13;64:6;91:5	73:20;74:2	88:12	96:3
contact (3)	CUNICELLI (38)	defined (1)	diligence (117)	done (4)
45:9;46:9;59:19	2:3,4,19,25;3:19;	45:19	7:18;8:4,7,17,20;	19:7;22:10;56:12;
contacts (1)	44:15,20,25;45:18,23;	defining (3)	14:11,20;17:7,24;18:6,	73:10
19:8	53:25;54:4;57:2,8,13,21;	73:18;83:7;88:11	19:19;2:21;3;22:5;23:2,	down (11)
contain (2)	59:16,24;60:6,15,19,24;	definition (2)	19:26;24;27:11;28:19;	30:12;42:9;63:13;
20:15;59:5	61:4,12,18,22;62:9,16,	45:3,6	29:6,14;30:6,22,25;31:2,	66:9;85:20,25;86:19,25;
contained (2)	19;63:5,12;64:12;65:2,	degree (2)	17,24;32:9,20,23;33:5,	87:10;89:6,13
20:13;78:11	12,20;66:5,24;96:8	5:7,9	24;35:13;36:20,23;37:4,	draft (1)
contemplate (1)	custodial (1)	delegated (1)	12,14,17;38:13,14,20,	50:17
19:25	16:16	76:21	22;39:4,21,24;40:13,16,	dramatically (1)
continually (1)	custodian (8)	delegating (1)	20;41:15;42:17;43:6,12;	93:7
49:23	12:11,16;15:24;16:3,	76:15	45:10,12,13,25;46:2,8,9,	drawing (1)
continued (1)	5,8,12;17:2	delivery (3)	12,16;47:16;48:6,15,16;	51:10
37:7	custodians (1)	8:13,15;15:21	49:11,16;50:9,11,15,23;	drill (1)
continues (1)	12:20	department (9)	52:9,23;54:14;55:10,19;	89:13
16:5	custody (1)	32:21;35:12,14,17;	57:4,10,12,16,24;58:6,	driven (1)
contract (5)	12:13	37:12,14,24;68:13,14	12;59:2;60:12;64:3,7;	46:17
33:6;89:20;90:18,22;	cuts (1)	depend (6)	66:12;68:15;70:12,14,	drivers (2)
91:5	13:5	22:2;46:3;50:18;65:8,	18;71:21,25;72:9,14,21;	28:14;46:20

Min-0-Script

Ellen Grauer Court Reporting Co. LLC

(3) completed - drivers

FCIC INTERVIEW OF
JOHN MONGELLUZZO

AUDIO TRANSCRIPTION
September 29, 2010

drove (1) 48:19	39:25	9:21;13:11	factor (1) 77:4	4:5;31:11;54:10,18; 64:2;93:16
DTI (6) 34:11;74:4,6,12,14,17	EMC (21) 67:8,17,21,23;68:4,11; 69:15,16,22;70:4,19; 71:2,7,11,18,23;73:5; 78:10;81:3;82:4;83:2	exact (1) 36:11	factors (21) 29:11;46:15;74:24; 75:14,25;76:3,10,14,15; 77:2,7,11,15,20,21; 88:17;93:22;94:9,14,19; 95:5	fine (5) 2:18;5:17;36:16; 45:18;53:16
DTI's (1) 74:9	EMC's (1) 72:22	exactly (1) 39:6	fair (3) 18:4;35:10;38:18	finished (1) 61:21
due (86) 7:18;8:4,6,16,20; 14:11,19;17:7,24;18:6; 19;19:2;21:3;22:4;23:2; 27:11;28:19;29:6,14; 30:5,22,25;31:2,17,24; 32:9,20,22;33:24;35:13; 36:20,23,25;37:4,11,14, 17;38:13,14,20,21; 39:21,24;40:20;43:6,12; 45:25;46:2,7,9,12,16; 48:6,14,15;49:11,15; 50:9,10,15;52:23;55:19; 57:4,15,24;58:6,12; 60:12;64:3;68:15;70:11, 13,18;71:25;72:9,20; 73:3,10;76:11,16;80:19; 81:2,9,23;90:4;93:19	employed (4) 6:16,17;12:18;32:20	examination (1) 34:17	fairly (4) 27:4;53:7;55:10;79:18	firm (37) 31:25;33:3,4,5;36:19; 37:9;40:5,20;42:19; 45:10,12,13;46:13,16; 47:21;48:10,11;51:4; 53:15;54:14;59:2;60:12; 64:7,25;66:13;70:17; 76:11,16;77:3;80:24; 81:3,10;87:3;90:12,13; 93:24;94:10
during (10) 38:19;39:18;68:5; 71:12,20;80:4;84:10,22; 85:11;86:6	employee (1) 67:20	examining (1) 3:25	Faith (1) 96:2	firms (33) 23:18;30:22;33:6,24; 40:13,17;42:17;45:25; 46:10,21;47:3,5,16;48:2, 5,6,17,20;50:23;51:6; 54:9;55:10,16,19;56:4,7; 57:4;80:20;81:16;89:21; 90:5,25;93:19
duties (2) 36:3;67:7	employees (3) 4:14;34:2;35:21	examples (1) 23:7	fall (1) 88:15	first (13) 5:19;30:19;33:4; 36:19;40:5;48:3,10,11; 53:19;62:14;78:12;79:7; 80:6
E	employment (3) 5:12,19;36:4	exceed (2) 53:11,16	false (1) 4:16	fit (8) 68:9,16,22;69:3;70: 15;72:2;75:19
earlier (8) 57:3,19;58:23;59:18; 64:16;72:5;75:7;80:16	encourage (1) 58:19	Excel (5) 31:10;59:9,11;60:11; 86:13	far (2) 33:4;69:23	five (5) 28:25;37:19;72:16,18; 89:17
early (7) 35:3,7;37:6;59:20,25; 60:7;92:21	end (7) 37:9,10;60:21;72:17; 95:12,21;96:7	Excellent (1) 60:6	FCIC (6) 2:12,3,4,6,21;4:12,13	flow (4) 70:23,25;71:14
earmarked (3) 15:14;17:8,14	ended (1) 96:10	except (1) 25:13	FCIC's (1) 2:23	flux (1) 91:21
easier (2) 36:13;62:18	endorsements (1) 8:23	exception (17) 24:14;58:3,7,22;59:6, 12,13,15;61:2;73:12,14; 75:24;76:17;79:4,5; 92:19;94:8	federal (1) 4:14	focus (5) 6:20;13:2;15:11;18:6; 54:8
eastern (1) 2:7	engagement (2) 60:21;61:24	exceptionally (1) 49:11	fell (1) 88:14	Foerster (1) 3:12
easy (1) 53:7	enhance (1) 56:6	exceptions (14) 22:9,13,15;25:14; 26:19;29:16;57:19;73:8; 82:15;92:19,24;93:4,5; 95:4	felt (3) 29:22;76:8;77:10	folks (1) 38:5
education (3) 5:2,4,5	enough (3) 47:19;77:16;93:9	exclusion (2) 13:3;14:4	few (1) 92:17	follow (1) 48:24
effort (1) 49:22	entail (2) 40:21,22	Excuse (2) 33:10;83:16	FICO (4) 20:21;85:13;86:9,16	following (1) 49:7
egest (1) 4:15	entailed (1) 8:6	executed (2) 10:21;11:3	FICOs (1) 86:5	form (2) 11:16;90:2
either (3) 64:7;66:14;71:13	entity (1) 16:11	exit (2) 15:4;17:25	figure (1) 53:4	format (4) 31:13;55:3;59:9,11
electronic (3) 60:17;94:6,6	equal (1) 74:7	experience (1) 87:6	file (11) 21:2;42:7;81:18;90:8, 10,15;91:6;93:21,25; 94:2,4	formats (1) 31:5
eligible (1) 64:4	equivalent (1) 11:3	expertise (7) 29:22;46:18,23;47:4, 6,17,21	files (5) 61:6;89:24;93:13,15, 16	formed (1) 4:11
else (6) 48:22;52:20;66:4,5; 87:3;92:13	escalated (1) 41:18	explain (4) 28:16;29:10;68:8; 70:23	final (8) 14:20;30:25;37:18; 51:5;61:25;63:17,17; 95:7	found (4) 48:20;56:20,23;64:1
E-mail (1)	essentially (1) 94:17	extend (1) 67:8	finance (6) 35:18,22;37:16;68:13, 14,20	four (13) 65:19,20;66:8,20;
	established (1) 3:21	extent (2) 50:14;87:8	Financial (3) 2:4;3:25;4:3	
	even (2) 93:10;95:5	extremely (1) 29:15	find (1) 55:5	
	eventually (2) 28:25;37:3	F	finding (2) 49:9;66:3	
	everybody (1) 53:17	fact (4) 38:21;40:4;73:19; 88:25	findings (6)	
	everyone (1) 2:20			
	evidence (3) 9:4,10;32:21			
	evidences (2)			

Win-T-Script®

Ellen Grauer Court Reporting Co. LLC

(4) drove - four

FCIC INTERVIEW OF
JOHN MONGELLUZZOAUDIO TRANSCRIPTION
September 29, 2010

67:2;76:12;77:17,22; 78:2;80:11,14;81:12; 93:18 fours (1) 81:14 frame (6) 22:2;44:7;46:4;60:2,8; 66:25 frames (1) 87:17 fraud (2) 49:17;52:18 Fremont (3) 23:13,25;24:9 frequent (1) 79:18 frequently (2) 39:19;59:5 full (3) 2:20;58:20;67:12 function (8) 7:2;12:2;18:11;46:6; 86:22;87:3;88:12,13 functions (1) 11:22 Funding (1) 25:3	grew (1) 38:3 group (8) 37:15;43:20;68:22; 70:12,17;72:9,15;96:6 guarantee (1) 10:21 guess (7) 35:8;45:2;61:6;85:21; 91:15,16;93:10 guideline (1) 75:20 guidelines (25) 81:19,25;82:2,5,7,9, 10,15,18,21;83:13;84:4, 14,18,25;85:9,16,24; 87:5,9;88:15,16,20,24; 89:5 guy (1) 63:15	83:18 Hinkley (54) 2:9;3:6,6;30:4;46:21; 47:2,24;49:3;50:8,14; 51:13,20;52:2,22;54:6, 16;55:4,15;56:2;68:2,8, 21;69:2;70:2,19,22; 71:10,17,22;72:15; 76:13;77:5;80:10,19; 81:24;82:25;83:8,17,23; 84:8,12,16,20;85:3,11, 19;86:4,11,20;87:4,20; 88:4,21;89:11 hire (2) 12:10;38:5 hired (1) 38:7 hiring (3) 38:10,11,12 hoc (1) 87:23 Hoden (1) 96:2 hold (2) 16:5;69:23 Home (1) 24:18 honest (2) 34:24;67:3 housekeeping (1) 4:18 hundred (1) 93:12 hundreds (1) 71:8	increased (3) 28:23;37:2;40:17 increases (1) 85:2 indicate (2) 20:9;65:21 indicated (2) 47:2,24 individual (10) 13:4;14:5;21:21;31:5, 8,12;40:12;59:2;87:16, 17 individually (2) 21:20;71:14 individuals (3) 30:13;37:15;38:8 industry (1) 48:25 information (2) 20:24;94:9 initial (2) 7:4;76:21 Initially (3) 28:24;37:25;46:4 Inquiry (1) 2:4 inside (1) 41:22 insofar (2) 18:13,14 instance (1) 63:22 instances (2) 52:12;74:16 instituted (3) 35:9;40:11;80:17 institutions (1) 4:3 Insurance (6) 6:11;7:9;10:7,14; 13:21;14:4 interested (2) 51:20;52:2 intermittently (2) 28:4;96:5 internal (3) 3:14;41:12,22 internally (2) 27:10;40:15 interpreting (1) 42:16 interrupt (1) 33:11 intervening (2) 9:10,15 interview (2) 2:13,14 into (8) 3:22;14:7;31:12; 46:15;50:20;55:6;72:2; 93:21 investments (1) 15:8	involved (1) 18:9 issue (2) 63:4;67:16 issues (5) 19:17,19;29:16;41:18; 76:6 item (1) 56:22 items (1) 81:22
J				
Jackie (1) 96:2 Jersey (2) 6:4,5 Jessica (2) 3:8;69:22 job (1) 55:14 Joe (1) 95:24 Joel (1) 3:10 John (4) 3:17;69:12,17,23 joined (1) 36:19 JP (1) 3:14 judgment (2) 76:10;77:12 juncture (2) 65:16;66:7 junctures (1) 66:9				
K				
Kerry (1) 79:24 kick (1) 21:2 kicked (1) 29:16 Kind (5) 44:2;47:11;49:25; 65:21;70:7 knew (1) 69:3 knowledge (8) 22:18;23:10;32:6; 34:8;37:20;51:11;60:4; 71:16 Krebs (125) 2:9;3:4,4,5;15:8,10, 18,25;9:8,14,18,24;10:5, 12,19,25;11:7,12,21; 12:4,14,21;13:2,8,14,19; 14:2,15,22;15:7,11,18, 25;16:9,18,24;17:4,12,				

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Ellen Grauer Court Reporting Co. LLC

(5) fours - Krebs

FCIC INTERVIEW OF
JOHN MONGELLUZZOAUDIO TRANSCRIPTION
September 29, 2010

19;18:3,12,16,24;19:10, 15,22;20:6,11,23;25:11; 26:12,20,25;27:10,18; 29:11;30:11,17,20; 31:15,23;32:6,12,18; 33:10,14,22;34:4,15,21; 35:2,10,19,23;36:3,8,12; 16;37:10,23;38:4,9,18; 39:6,10,14,18;40:19; 41:21;42:8,23;46:11; 53:21;54:21;58:3,8,16; 67:5,6,14;69:19;72:20; 73:2,11,19;74:3,11,16; 21;75:2,7,13,21;77:22; 78:2,7,17;79:2,10,15,20, 23;80:3;81:2,9;82:19	89:2 lighter (1) 92:12 likely (1) 29:24 liken (1) 50:2 limited (1) 95:3 line (1) 2:11 list (5) 55:18;56:19;59:13; 62:21,21 little (6) 18:6;35:11;49:8; 55:23;89:13;91:21 loaded (1) 42:10 loan (47) 16:15;19:17;20:19; 25:3;34:14;38:22;41:24; 57:16;61:15;63:4,18,19, 21,23;64:4,10;65:3,7,8, 9;66:14;72:13;73:22; 74:6;75:19,24;76:7; 77:23,23;78:3,3,6,10,11; 80:12,12,21;81:4,11; 87:16;93:13,15,21,25; 94:2,4;95:10 loans (65) 14:19,21;17:17;18:8, 11,18,23;19:3,6;20:2,10, 20:21-22,22,5,21,22; 23:18,28,21;29:16; 36:21;40:10,41;17; 47:10,18;59:14;61:25; 62:22,63;11;65:17; 66:18;70:14;71:6,9; 72:7,8,10,11,21;73:4,6,9, 25;74:9,12,17,22;75:3,6, 8,13;76:5,22;78:9,11,18; 79:6;82:6,16;83:17; 87:8;88:14;89:4,15,18; 92:25 lobby (1) 33:18 locations (1) 41:5 long (1) 53:17 longer (2) 65:10,11 look (9) 29:5;31:13;34:11; 75:18;89:25,93;23,25; 94:4;95:8 looked (4) 22:5;41:17;86:8;94:2 looking (16) 35:4;38:15;39:2;41:9; 13;45:17;49:13;50:6; 56:15;58:15;86:12,15,	23;89:17;94:5;95:17 lot (2) 29:15;49:22 LTV (5) 84:10,22;85:2,15; 86:16 LTV's (1) 86:10 M mail (1) 60:17 maintain (1) 12:12 major (4) 4:3;27:22;28:2,5 majority (3) 22:10;91:14,24 making (4) 18:8,10;76:17;77:12 manage (1) 38:13 management (2) 38:16;79:3 manager (1) 76:24 managerial (1) 36:22 managers (4) 41:15,16;46:8;48:15 Manhattan (1) 6:2 manifest (1) 32:7 manner (1) 89:25 many (11) 26:21;35:21;52:12; 63:8;72:16;78:8,10; 87:12;89:24;92:19,23 Maria (1) 95:25 market (1) 83:4 marketplace (1) 49:21 material (7) 73:15,18,21,21,24; 74:5,6 materials (1) 18:7 matter (2) 40:4;85:6 maximum (2) 27:8;74:14 may (9) 4:7;15:5,5;82:11; 85:25;86:2;88:25;95:6; 96:4 maybe (3) 6:8;37:20;44:5 MDMC (1)	91:20 mean (15) 5:3;19:15;20:11; 33:11;43:10;49:3,7; 50:4;52:21;53:10;66:2; 75:5;81:8;84:13;93:17 means (2) 62:24;63:3 meet (5) 62:25;79:10,11;80:3; 88:16 meeting (2) 79:15;89:4 meetings (1) 79:2 meets (1) 65:23 member (1) 41:12 members (5) 31:15;43:20;50:21,22; 53:10 memorialized (1) 54:22 memory (1) 25:10 mention (1) 25:2 mentioned (2) 64:15;92:8 MERS (7) 11:8,9,15,22;16:19,20, 22 MERS' (1) 16:25 met (4) 53:17;79:18;87:9; 88:14 Midlantic (1) 5:20 midlevel (1) 36:22 might (6) 14:6,6;15:7;36:13; 69:7;82:14 mind (6) 23:12;24:14,17;44:4; 53:13;59:17 minimal (1) 53:13 minimum (4) 27:8;28:24;29:3;53:18 minor (1) 75:24 minute (1) 44:20 Miss (6) 2:10;45:24;59:18; 79:24,24;92:22 missing (8) 61:6,14,16;63:23; 64:8,13,17;65:4 model (1)	47:12 modifications (2) 10:2;13:16 Mongelluzzo (266) 2:10,13,15,16,18;3:11, 17,18,20;4:23;5:3,13,16, 18;6:22;7:3,24;8:8,14, 24;9:6,12,16,23;10:4,10, 17,23;11:5,9,19,25;12:9, 19,24;13:6,13,18,24; 14:13,18,23;15:9,17,22; 16:2,13,21;17:3,10,16, 22;18:9,14,21;19:4,11, 20;20:4,7,14,25;21:7,10, 17,25;22:8,14;23:5,9,16; 24:2,5,11,16,20,23;25:4, 7,15,20,25;26:13,16,22; 27:3,14,21;28:6,10,17; 29:13;30:8,14,18,21; 31:19;32:3,11,14,24; 33:13,15;34:3,7,18,24; 35:6,16,20,24;36:6,10, 13,18;37:13,25;38:6,12, 24;39:8,12,16,23;40:22; 42:5,14;43:2,9,14,22; 44:4,13,18,23;45:5,21; 46:3,14,24;47:8;48:7; 49:10;50:13,18;51:17, 24;52:8;53:6;54:6,12,17, 23;55:8,21;56:8;57:2,7, 11,18;58:2,5,13,22; 59:16,22;60:3,14,18, 61:3,10,15,20;62:7, 17;63:3,10,16;64:23; 65:7,14,25;66:11;67:3, 10,19;68:7,18,25;69:5; 70:11,21,25;71:15,20; 72:3,18,24;73:7,17,23; 74:8,13,19,25;75:4,10, 16,23;76:19;77:9,25; 78:5,15,22;79:8,12,17, 22;80:2,8,16,22;81:7,15; 82:3,22;83:6,10,21;84:2, 9,11,13,17,24;85:5,14, 23;86:7,14,22;87:15; 88:2,10;89:8,19,23;90:7, 11,17,23;91:12,16;92:4, 9,23;93:6,14,23;94:16, 21;95:15,22 month (1) 31:7 more (17) 7:12;8:8;21:17;29:24; 38:5,7,21;39:3;40:7; 47:5,17;56:3;87:12,12; 89:2;92:3,18 Morgan (1) 3:14 morning (1) 69:3 morning's (1) 69:20 Morrison (1)
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Ellen Grauer Court Reporting Co. LLC

(6) large - Morrison

FCIC INTERVIEW OF
JOHN MONGELLUZZOAUDIO TRANSCRIPTION
September 29, 2010

3:11 Mortgage (23) 6:7,11;7:16,19;9:2,4; 10:3,22;11:3,4,14;13:17; 24:19;35:18,21;37:16; 68:13,14,20,23;70:3,4; 71:11 mortgages (32) 7:8,11,14;8:12,19; 11:11,24;12:17,22,24; 13:3,4;14:5,10;15:14; 16:10,23;17:5,13;47:7; 68:4,10;69:17;70:3,5,7, 8;71:3,4,14,24;88:6 most (1) 76:3 mouth (1) 25:22 moved (1) 14:7 moving (1) 62:19 much (5) 23:11;44:11;51:10,23; 52:10 multiple (7) 12:20;38:20;39:4; 59:11;62:8,10;73:24 mute (1) 53:24 myself (1) 95:18	74:18 New (4) 6:4,5;24:22;28:18 next (1) 71:22 nomenclature (4) 61:11,13;64:15,20 note (5) 8:22;10:22;84:9,11,22 noted (5) 26:19;57:19;73:8,14; 77:3 notice (2) 85:12;88:8 noticed (1) 17:19 notified (1) 17:20 notify (2) 18:22;72:8 notifying (1) 18:17 notion (1) 78:8 number (11) 28:19,22;29:3;46:15; 51:2;78:24;89:15,15; 93:6,9;95:17 numbers (4) 36:2;66:22;91:8,20 numeric (1) 67:2 NYU (1) 5:8	one (38) 14:24;20:19;31:5; 32:14,17;33:2;34:16; 37:21;38:21;39:3,5; 40:9;41:14;47:21;48:13; 54:8;59:2,11;62:13,14, 15;65:13,22;66:7,15,22; 69:24;71:4,6,13;75:18, 19;77:23;81:12;82:3; 91:23;92:12,16 O'Neill (2) 79:24,24 ones (4) 46:23;49:20;95:9;96:3 one-size-fits-all (2) 86:3;87:19 ongoing (1) 45:13 online (5) 33:15,18;34:5;39:20, 22 only (5) 19:18;33:4;46:5; 49:14;67:9 on-site (1) 40:23 onto (1) 16:6 operation (2) 39:15;68:24 opinion (4) 10:7,14;13:21;78:21 opportunity (1) 63:20 opposed (3) 52:6;71:4,7 order (1) 81:10 organization (2) 53:11;70:16 organizational (1) 70:9 organizations (1) 52:14 original (14) 8:22;9:2,19,25;10:6, 13,20;11:16;13:9,15,20; 14:3;66:3,11 originally (1) 80:12 originals (1) 9:9 originating (1) 29:22 origination (2) 42:7;67:13 originator (2) 29:23,25 originators (3) 23:4,7;24:13 originator's (1) 81:25 others (6)	28:3;46:22;47:6,18; 85:25;96:4 out (18) 13:5;29:16;40:9,12; 42:21;44:2;48:11,20; 49:15;52:16;53:3,4; 61:23;62:22;69:4;91:3; 94:7;96:5 outline (1) 20:21 outlined (1) 72:4 outlining (2) 19:13,16 outside (2) 42:18,18 over (16) 4:21;14:7;27:22; 28:23;35:25;37:7;40:18; 47:21;82:20;83:12; 84:17;86:17;87:11,21; 88:7;93:12 overall (5) 55:4,15;56:6;68:16; 91:17 overlay (1) 82:13 overlays (2) 81:20;82:20 overrule (1) 94:20 own (1) 82:20 owned (1) 67:22 ownership (2) 11:10;16:23	party (1) 95:8 pass (3) 33:7,19;34:2 passage (1) 34:22 Passaic (1) 5:5 passed (1) 34:17 Patterson (2) 3:15,15 Patty (2) 36:24;95:24 Paul (3) 3:8,15,15 pay (1) 90:4 paycheck (1) 69:17 people (14) 38:15,20;41:19;46:5, 8;47:22;48:25;60:5; 72:16,16;89:3;95:13,15, 20 People's (1) 25:6 per (4) 90:8,10,15;91:6 percent (40) 22:4,7,11,25;23:19,22, 24;24:10,12,15;25:13, 14;26:6,17;27:8,9;28:8, 19;51:15,18,21;52:3,7; 57:15,16,24;62:24;63:7; 72:20;73:2,3,5,10;74:10, 15;91:18,19,20;92:7,7 percentage (2) 24:10;91:10 perfectly (1) 75:19 perform (2) 72:13;81:22 performed (10) 8:20;11:22;14:11; 17:7;18:19;19:2;32:9, 23;57:23;73:4 performing (2) 17:24;46:2 perhaps (2) 60:8,9 period (14) 7:4;29:4;37:8;38:19; 39:18;56:10;68:5;71:12; 83:4,20,25;84:10;86:6; 87:21 periods (4) 36:7;65:15;83:12; 92:11 permitted (2) 33:8,20 person (3) 32:8;37:21;38:9
N	O	P		
name (5) 2:21,22;11:15;27:25; 35:14 named (2) 16:4;24:25 names (2) 23:12;95:21 National (2) 5:20,22 nature (1) 19:19 NBMC (2) 27:23;47:10 near (2) 4:2;93:8 necessarily (6) 17:25;21:11,13,20; 40:25;82:23 need (5) 30:13;44:13;55:23; 75:16;76:6 needed (1) 72:11 negotiation (1) 62:3 Nevada (1) 42:12 nevertheless (1)	observed (1) 86:5 obtain (1) 4:20 obviously (1) 67:22 occasion (1) 28:8 occur (2) 26:13;41:7 occurred (2) 37:5;41:8 off (4) 21:3;54:2;73:25;96:9 offhand (1) 78:16 offices (2) 2:12;79:16 officials (1) 79:11 often (3) 9:14;39:10;42:24 oftentimes (2) 17:8,14 once (3) 12:22;30:8;66:13	package (7) 15:23;16:16;70:16; 71:8;72:7,8,10 packages (4) 7:13,16,19;71:5 paid (1) 90:7 paper (3) 15:16,17,18 part (5) 8:4;20:25;48:19; 68:12;82:12 particular (24) 16:15;17:20;20:17,19; 22:24;23:17,20;24:6; 25:17;26:5,7,8;31:7; 32:8,22,25;33:2;36:20; 46:13;54:19;56:4;57:9; 80:21;92:24 parties (1) 68:5 parts (3) 62:17,19;68:14		

Min-IT-Script

Ellen Grauer Court Reporting Co. LLC

(7) Mortgage - person

FCIC INTERVIEW OF
JOHN MONGELLUZZOAUDIO TRANSCRIPTION
September 29, 2010

personnel (1) 33:23	80:9;82:23,24	procurement (1) 91:2	53:2	recertified (1) 9:19
persons (3) 31:24;34:16;37:22	possible (3) 15:10;79:13,18	produce (1) 63:25	Q	Recess (1) 54:3
PHH (1) 6:7	posted (1) 34:19	produced (2) 64:14,18	QC (1) 33:23	recode (1) 65:13
phonetic (9) 32:13;36:24;79:21,25; 95:24,25;96:2,2,3	powers (2) 9:20;13:10	product (4) 20:16;29:23;84:19; 85:8	qualified (1) 57:6	recorded (1) 65:10
physically (2) 94:2,4	PPC (1) 94:15	production (1) 4:9	quality (8) 4:20;7:15;20:2,10; 28:21;83:24;87:7,22	recollection (4) 40:4;68:22;72:19;85:9
pick (1) 47:21	practice (1) 21:18	products (5) 84:14,25;85:4,16,24	quarter (2) 78:12,13	recommended (1) 52:5
picked (1) 47:3	predominantly (4) 7:7,20,25;31:20	professional (2) 4:24;5:11	quarters (2) 79:7;80:6	reconciled (1) 53:5
play (1) 47:15	present (1) 86:21	programming (1) 42:20	Quick (3) 25:3;53:24;90:5	reconciliation (1) 53:7
please (13) 2:20,22;4:12,18; 11:24;14:17;17:11; 30:20;46:25;47:4;55:25; 72:25;79:9	president (2) 3:23;4:6	projects (1) 49:2	quite (5) 15:9;51:14;79:13,17; 88:23	record (7) 2:17,21;28:13,16; 54:2,4;96:9
PMI (2) 6:11;7:9	presumably (2) 33:22;34:15	properly (1) 55:20	quoting (1) 11:13	recordable (1) 11:16
point (10) 7:7;17:23;29:4;34:21; 38:7;50:19;52:15;56:10; 71:23;73:19	previous (2) 28:13;66:22	proposed (2) 50:10,17	R	recorded (3) 2:14;9:2;11:14
points (1) 67:24	previously (1) 76:8	prospective (1) 33:23	raised (1) 67:16	recording (3) 9:4,10;96:10
policies (12) 30:2;43:5,7,10,12,13, 17,19,25;44:5,12,18	price (3) 19:18;20:15;91:6	provide (9) 4:9;5:14;18:25;19:5,6; 33:25;47:4;49:17,18	ran (1) 36:24	recordings (2) 9:21;13:11
policy (14) 10:7,14;13:21;14:4; 26:16;44:15,22,24; 45:17,20;52:25;53:3; 74:8,11	Pricewaterhouse (1) 57:5	provided (3) 64:5,10;65:6	range (3) 21:24;27:6;95:3	records (1) 4:9
pool (27) 12:17;13:2;17:20; 18:8,18,22;19:2,6;20:19; 21:21;22:20;29:17; 32:25;33:2;39:3;46:13; 47:16,22;62:22;70:3,4; 72:22;81:4,6,19;87:16; 92:24	PricewaterhouseCoopers/Watterson (1) 27:24	providing (1) 94:11	rank (3) 73:15;75:2,5	reduce (1) 29:12
pools (20) 8:11,19;13:5;14:6,19; 15:20;17:6,13;18:10; 22:4;23:18;29:14;36:20; 38:22;39:5;40:10;78:10, 11;86:12,16	primarily (1) 47:9	public (1) 3:21	ranked (4) 73:16;75:8,13;77:6	reduced (1) 89:5
portal (1) 33:17	primary (5) 28:14;45:24;46:19,20; 59:19	published (2) 33:16;82:4	ranking (2) 77:22;78:2	reducing (2) 29:8,18
portfolio (1) 19:17	Prime (4) 27:24;41:4;47:9;91:19	purchase (15) 8:11,19;15:20;18:23; 23:10,11;39:2;64:4; 68:9,23;71:3;74:9,12,15; 82:6	rated (3) 61:17;76:23;77:5	regarding (1) 79:5
portion (1) 59:6	prior (1) 18:7	purchased (11) 12:22;17:18;23:18; 64:11;69:13,14;70:17; 71:2,14;74:18;76:7	rating (3) 50:21;66:16;77:17	regards (1) 8:16
position (2) 68:9;70:8	probably (7) 5:24;6:5;12:15;15:4; 37:5;44:8;91:17	purchaser (2) 11:18;69:16	real (1) 87:25	registration (1) 11:10
positions (1) 6:25	problem (3) 55:16;62:20;83:5	purchases (14) 7:13,18;12:17;13:3; 27:17;67:9,12,15;69:11, 21;70:14,18;71:18; 72:22	really (1) 67:4	regulatory (1) 42:6
possibility (3)	procedural (1) 84:5	purchasing (4) 7:16;22:20;72:10; 95:10	reason (1) 58:9	rejected (3) 77:23;78:4;80:13
	procedure (7) 45:6,19,20;52:5,24; 53:3;63:15	purpose (1) 80:4	recall (14) 20:12;24:24;25:17; 26:4,4,7;34:25;35:2; 54:25;74:14;79:12;80:9, 17;91:12	related (2) 7:13;72:21
	procedures (11) 43:15,16;44:5,11,16, 24;45:2,3,15;48:24; 51:14	purposes (1) 7:15	receive (17) 8:21,25;9:19,24;10:5, 12,20;11:2,15;12:9,11; 13:9,14,19;14:2,18;7; 59:10	relating (1) 19:17
	process (25) 18:10;35:3,4;37:4; 38:13;40:11;49:14,23; 50:7;51:3,6;56:14,16,18; 60:16;63:8,10,13;66:12, 20;71:25;72:2,5;80:18; 90:24	put (4) 19:13;25:21;53:23; 54:25	received (11) 5:8;12:5,7,17;15:19; 16:12;20:23;39:21,23; 58:25;60:9	relation (1) 67:21
	processes (2) 40:14;50:25	putting (1)	receiving (2) 60:16;63:16	relationship (3) 16:25;67:17,23

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(8) personnel - remains

FCIC INTERVIEW OF
JOHN MONGELLUZZOAUDIO TRANSCRIPTION
September 29, 2010

remediated (1) 76:6	4:25	52:4	2:5	15:3
remember (6) 54:20;55:3;62:13; 90:17;91:7;96:4	retain (1) 31:18	satisfied (1) 64:2	serious (1) 52:10	somebody (1) 52:20
rep (2) 7:20,25	returned (1) 6:12	satisfy (1) 64:6	seriously (1) 49:12	somebody's (1) 82:14
repair (1) 65:21	reverting (1) 66:21	saw (1) 83:23	services (1) 33:25	someone (1) 12:6
repaired (1) 66:14	review (24) 34:10;38:22;40:3,16; 20:41;10:20,22;54:7,13; 15:19;56:5,11;60:20,24; 25;81:4,16,17,23;91:6; 93:15;95:8	saying (4) 39:2,7;83:17;88:18	set (4) 30:25;31:10;81:18; 82:4	sometimes (2) 87:23,24
repeat (1) 69:24	reviewed (11) 60:20,23;71:7;73:6; 76:23;78:9,12,19;79:6; 81:6;93:15	scale (1) 75:18	several (6) 22:16,17;27:4,21; 28:11;32:16	somewhere (3) 66:20;87:3;94:3
report (11) 31:6,6;55:2;59:3,4,4,7, 13,13;63:17,17	reviewer (1) 89:16	scheme (1) 70:6	shape (1) 89:25	soon (1) 56:23
reported (1) 4:5	reviewing (6) 7:14;20:3;76:16;80:5; 87:9;93:13	scope (1) 81:16	shared (1) 63:18	sorry (3) 44:2;51:24;81:13
reporting (8) 30:23;45:11;59:8; 91:5;93:16,24;94:6,7	reviews (5) 27:11;28:13;40:10; 52:7;54:22	score (2) 20:21;85:13	short (1) 53:20	sort (6) 20:22;41:18;45:14; 59:14;62:3;87:2
reports (23) 30:6,15;31:2,4,8,9,12; 34:11;39:22,24;58:4,7, 23,25;59:10;60:10,10; 73:12,14;79:4,5;80:5; 92:19	right (31) 9:5,8,18;10:3;11:7,21; 12:4;13:8,17;14:16; 16:18;18:16;20:6;24:4; 8;25:19;26:20;27:17; 33:10;36:8;42:21;43:8; 51:16;68:2;69:22;71:10; 75:21;84:20;85:19; 89:12;96:8	scores (1) 86:9	sic (1) 3:16	sourcing (1) 92:14
repository (1) 16:22	role (2) 7:10,12	Sears (5) 36:24;45:24;59:18; 92:22;95:24	side (1) 2:24	speak (5) 12:3;30:9;37:15; 68:19;96:7
represented (1) 31:24	roles (1) 6:24	second (3) 44:3;62:15;78:13	SIFMA (9) 48:14,16;50:9,11,17, 20;51:13,22;52:4	SPEAKER (25) 3:13;25:19;26:10; 28:6,15;29:9;42:24; 89:12,22;90:3,9,14,21; 91:9,13;92:2,6,16;93:2, 11,17;94:12,17;95:11,19
repurchases (2) 7:21;8:2	roll (1) 31:11	Section (1) 4:15	signal (2) 78:3,6	speaking (13) 10:18;11:19;19:4; 22:3,3,8;30:22;51:19; 54:15;57:18;70:12;73:7; 89:9
require (1) 56:25	rolled-up (3) 31:12;59:3,4	securities (1) 42:3	signed (2) 3:22;90:25	spearheaded (1) 48:13
required (5) 34:23;42:17;45:11; 65:17;66:19	roughly (1) 93:3	securitization (2) 11:23;22:24	significant (4) 49:5;76:9;77:19,21	specific (4) 5:14;8:9;36:15;85:9
requirement (2) 56:22;73:3	run (3) 36:20;37:23;63:13	securitizations (4) 14:7;15:12;17:9,15	significantly (1) 27:4	specifically (10) 6:23;12:25;30:9;48:8; 54:18;58:6;74:20;84:4; 85:5,7
rereview (1) 65:8	running (3) 36:23;37:4;38:20	securitize (2) 17:17;22:21	similar (4) 7:10;45:7;48:24;55:10	specifics (2) 47:4;55:7
residential (3) 7:5,8,11		securitized (3) 15:2,15;17:21	single (2) 22:18;23:21	specify (1) 89:24
respect (6) 10:2;13:16;31:23; 73:11,22;74:12		security (3) 11:2;16:3;41:10	site (4) 31:25;41:20;54:13; 94:3	spell (2) 2:22;94:7
responses (1) 4:19		seemed (1) 52:6	sites (3) 31:16,22;39:20	spelled (1) 91:3
responsibilities (4) 67:8,18;68:11,17	S	seems (2) 49:8;51:21	sitting (3) 52:23;58:10,11	spent (1) 49:22
responsibility (2) 37:3;71:17	same (5) 38:23;83:18;85:15; 89:7,10	sell (1) 82:8	situation (1) 91:23	spitting (1) 42:20
responsible (8) 7:17,20,25;18:17; 37:16;46:6;70:13;94:10	sample (19) 21:6,9,12,14,16,19,23, 24;23:14;26:24;27:7; 28:8,11;29:8,12,18,24; 51:22;57:15	seller (10) 11:17;22:18,22;23:21; 28:18;63:18,19;64:18; 65:6;82:8	six (2) 37:20;72:18	spoke (1) 79:13
rest (1) 94:15	samples (5) 26:15;51:14,16;52:6; 53:2	sellers (1) 24:7	size (18) 21:6,9,11,14,16,23,24; 23:14;26:14,21,23; 28:11;29:8,12,18,24; 35:12;37:24	sporadically (1) 28:4
restrictions (1) 20:18	sampling (1)	sense (1) 41:24	skills (1) 38:16	spreadsheet (2) 60:11;86:13
results (6) 29:6,7,10,14,20;42:21		sent (1) 71:6	SLA's (1) 91:3	spreadsheets (1) 31:10
resume (1)		separate (2) 65:18;66:23	smaller (3) 29:24,25;37:22	staff (5)
		separately (1) 66:18	sold (1)	
		September (1)		

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Ellen Grauer Court Reporting Co. LLC

(9) remediated - staff

4:14;31:16;37:7; 41:16;47:10 standard (13) 2:7;14:25;34:12; 51:22;52:5;20:53;12,14, 16,18;81:10;83:19;89:6 standardized (1) 53:3 standards (12) 48:18;50:11,15;56:3; 62:25;65:24;81:5,8; 83:9,11,15,16 standing (1) 21:18 standpoint (1) 53:9 start (7) 2:23;4:23;36:8;43:8,8; 68:2;80:14 started (4) 40:5;60:4;64:13;80:11 starting (2) 4:25;5:4 state (7) 2:20;6:4,5;41:25;42:6, 12,12 statement (1) 11:13 statements (1) 4:16 States (2) 4:13,15 status (4) 61:25;62:23;65:4,18 statute (2) 3:21;4:10 staying (3) 87:13;89:7,9 Stearns (39) 6:15,21;7:17;8:4,11, 13;12:18,23;14:12;17:7; 18:20;32:7,19;33:17,20; 34:2;35:15;36:5;51:15; 52:3,25;55:18;62:2; 63:6;67:9,20,22;68:4,10, 23;69:13,18;70:2;71:11, 23;78:9;81:3;83:2;88:7 Stearns' (1) 50:15 Stearns/JPMorgan (1) 6:16 step (9) 44:17,17;45:7,7; 63:14,14,15,15;75:17 step-by-step (1) 45:14 still (2) 25:14;27:16 stip (2) 19:10;20:13 stips (4) 19:24,25;20:9,14 stipulations (2)	19:7,11 strategies (1) 15:5 strategy (1) 17:25 Street (2) 48:5,17 strictly (4) 8:16;22:22;29:20;90:8 strong (1) 38:16 structure (2) 69:9;70:9 struggle (1) 36:10 stuff (1) 69:10 subjects (1) 34:4 submitted (1) 82:11 subprime (19) 21:22;22:4;23:11; 26:15,18;47:10,17; 51:18;57:6,10,12,14,23; 72:21;73:4,9;85:13,22; 92:3 subsequently (2) 64:18;65:6 sufficient (3) 77:3,15;94:19 summary (2) 31:9;79:5 superimpose (1) 82:19 suppose (1) 74:4 supposed (1) 81:17 sure (38) 4:18;5:18;6:22;7:6; 14:15;15:4;19:20;20:4, 8,8;26:9;28:17;30:8,16, 17;35:6;37:18;38:24; 42:15,19;43:15;48:23; 49:13;53:21;60:4;64:23; 67:10;69:5;76:25;81:7; 83:21;84:2,3,6;88:2,13; 94:22;95:22 system (1) 11:10 T tab (1) 61:2 table (1) 51:7 tabs (2) 59:11,12 talk (6) 30:11,18;41:15;48:18; 58:11;76:2	talking (19) 15:22;19:18;26:22; 27:16,18;41:23;42:2; 44:10,11;58:6;66:25; 67:11,14;69:15,19;84:4, 21;89:19,94:5 tangled (1) 69:9 tape (2) 19:5;86:21 technique (1) 52:4 ten (4) 3:24;22:17;53:22; 89:17 tend (2) 29:17;30:3 term (2) 64:24;65:2 terms (23) 7:15;21:13,18;26:14; 34:13;36:23;41:10,16; 42:6,21;44:19;45:8,9,17; 49:21;51:8,11;64:7; 68:20;86:24;87:22;91:4, 4 test (11) 33:5,8,14,16,17,19; 34:6,20,22,22;35:9 testimony (1) 4:8 testing (3) 48:20;49:19;52:17 tests (2) 48:10;52:16 therefore (1) 39:3 third-party (7) 27:12,15,20;45:25; 57:4;60:12;72:12 though (1) 95:5 thought (9) 28:20;49:24;55:9,13; 56:10,18;72:4;77:14,20 thoughts (1) 50:25 three (24) 27:22;28:2,5;41:19; 57:3;61:17,23;62:24,24; 64:11;65:4,10,13,22; 66:3,13;75:18;76:8; 77:6,13,14;80:13;81:12; 93:18 threes (8) 62:2,4,5;75:9,13,15; 76:5;87:12 throughout (3) 69:20;83:19;87:14 times (1) 31:21 timing (1) 40:2	title (14) 6:25;7:6;10:6,8,8,13, 15,15;11:2;13:20,22,22; 14:3;16:10 today (3) 50:3;58:10;69:16 Today's (1) 2:5 together (4) 19:13;48:18;54:25; 71:9 told (5) 19:23;44:21;59:19; 75:7;78:17 Tom (8) 2:8,8;3:2,4;21:4;43:4; 53:19;67:6 tomorrow (1) 50:5 took (5) 6:6;28:18;37:3;49:11; 52:9 tools (3) 49:17,19,20 top (3) 68:3;74:2;82:20 total (2) 70:6;82:12 track (3) 28:12,16;66:18 tracking (1) 11:10 tracks (1) 16:23 trade (7) 18:21;19:12,14,16; 21:13;53:8;72:5 trader (3) 21:5,8,10 traders (1) 18:12 trading (1) 18:11 trailing (3) 61:8,13,14 transaction (3) 23:21;61:11;76:25 transactions (15) 22:25;23:17,20;24:7; 28:20,23,25;29:2,4; 32:17;33:9,21;34:19; 47:11;95:17 transcript (1) 4:20 TRANSCRIPTION (95) 2:1;3:1;4:1;5:1;6:1; 7:1;8:1;9:1;10:1;11:1; 12:1;13:1;14:1;15:1; 16:1;17:1;18:1;19:1; 20:1;21:1;22:1;23:1; 24:1;25:1;26:1;27:1; 28:1;29:1;30:1;31:1; 32:1;33:1;34:1;35:1;	36:1;37:1;38:1;39:1; 40:1;41:1;42:1;43:1; 44:1;45:1;46:1;47:1; 48:1;49:1;50:1;51:1; 52:1;53:1;54:1;55:1; 56:1;57:1;58:1;59:1; 60:1;61:1;62:1;63:1; 64:1;65:1;66:1;67:1; 68:1;69:1;70:1;71:1; 72:1;73:1;74:1;75:1; 76:1;77:1;78:1;79:1; 80:1;81:1;82:1;83:1; 84:1;85:1;86:1;87:1; 88:1;89:1;90:1;91:1; 92:1;93:1;94:1;95:1; 96:1 transcriptionist (1) 2:23 transferred (1) 16:11 travel (3) 31:16,21;40:15 traveled (1) 39:19 traveling (2) 40:6,7 trend (1) 87:25 trends (2) 86:24;87:21 trendsetter (1) 52:13 trigger (2) 25:10;27:5 trustee (2) 16:4,4 try (2) 8:10;58:19 trying (9) 14:8;19:24;25:9,21, 25;49:23;53:4;54:23,24 turn (3) 4:21;49:5;66:14 turnaround (2) 90:6;91:4 twelve (1) 89:18 two (27) 23:12;24:7,24,25; 25:13,16;26:5;28:14; 30:23;31:4;37:21;38:2; 46:5,19;55:22;57:5; 58:24;60:10;66:14; 75:18,23;76:23;77:13; 79:7;80:6;81:12;82:4 twos (1) 76:4 type (4) 20:16;38:9;56:5;80:11 types (5) 30:6,23;47:6;58:2; 84:19 typical (1)
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Min-4-Script

Ellen Grauer Court Reporting Co. LLC

(10) standard - typical

FCIC INTERVIEW OF
JOHN MONGELLUZZOAUDIO TRANSCRIPTION
September 29, 2010

40:20 Typically (9) 9:6,12;12:15;20:15; 31:7;40:23;59:8;75:17, 23	46:13,16;52:20;61:10, 14;64:19,25;65:3;81:21 used (7) 12:20;21:2;27:21; 28:3;49:16;66:8;67:2 using (5) 52:6;64:12,24;80:11, 14	Wall (2) 48:5,17 wants (2) 70:2,4 warrant (2) 7:21;8:2 Watterson (3) 41:4;47:9;91:18 way (5) 3:20;4:17;8:10;37:8; 59:25 ways (4) 49:13;50:6;51:2;56:16 weighted (4) 86:15,16,18,25 Weiss (2) 3:9,16 weren't (4) 29:15;33:8;58:15; 94:22 What's (1) 45:2 whenever (1) 28:17 Whereupon (1) 96:10 wherever (1) 40:23 whole (1) 37:24 widely (1) 93:7 wish (2) 55:18;56:19 wished (1) 56:5 within (5) 37:16;48:14,16;88:14, 15 without (2) 36:14;55:6 witnesses (1) 4:8 word (2) 64:15,25 words (2) 25:21;87:11 work (9) 6:7,9,10,15;32:15; 33:8,20;69:2;71:25 worked (8) 5:22,25;6:3;32:16; 35:17;50:8;95:13,20 working (9) 6:4;7:5;34:18;45:3,5; 48:25,25;50:11;53:8 world (1) 36:22 worse (3) 88:9,11,20 worst (1) 55:6 write (3)	43:19;44:21;45:20 writing (1) 89:4 written (7) 33:14,17;43:7,11,13, 15,25 wrong (2) 49:25;69:12 wrote (2) 44:25;45:19
U	V	Y	
ultimately (3) 17:21;50:16;95:9 under (3) 4:14;12:6;95:13 underlying (2) 57:25;88:24 understood (6) 17:4,12,16;26:11; 42:10;43:18 undertake (1) 81:4 underwrite (1) 34:14 underwriter (3) 32:2,4;48:4 underwriters (10) 33:2,6,23;47:16,19; 48:21;84:5;89:14,20; 90:4 underwriting (36) 7:5,8,10;33:7;34:8; 38:17;40:24;41:6,8,16; 48:10;52:16;62:25; 65:23;75:20;81:19,24; 82:2,5,9,10,18,21;83:9, 11,13,15,24;87:7,23,24; 88:6,9,11,19;89:6 underwritten (2) 82:7;83:18 UNIDENTIFIED (25) 3:13;25:19;26:10; 28:6,15;29:9;42:24; 89:12,22;90:3,9,14,21; 91:9,13;92:2,6,16;93:2, 11,17;94:12,17;95:11,19 uniform (1) 87:6 United (2) 4:13,15 universal (1) 86:3 unless (2) 49:8;94:2 unusual (1) 49:8 up (11) 31:11;36:12;44:21; 45:2;49:5;86:2,18,25; 87:10;89:6;94:13 upon (17) 16:14;22:2;46:4,18; 47:22;50:19;55:12;56:2, 23,24;63:16;65:8;73:18; 85:8;92:13;93:20;94:15 use (9)	valuation (2) 49:18;52:18 variables (2) 28:9,10 varied (3) 14:24;88:25;90:12 various (5) 43:14;46:22;47:6; 67:24;68:5 vary (4) 27:3;87:16;92:10;93:7 vast (2) 22:10;91:24 vendor (3) 64:3;72:13;91:23 vendors (10) 27:12,15,20;38:15; 49:16,16,18;52:17,18,19 vendors' (2) 39:21,24 verbal (2) 2:17;4:19 version (1) 51:5 versus (2) 44:5;47:18 via (2) 39:24;60:17 Vicki (1) 79:20 Victor (1) 2:3 visit (1) 40:23 volumes (2) 37:2;92:15	Year (14) 5:17,19,21;6:11; 22:15;24:3;25:17;26:8; 34:25;43:7;79:3,6;80:6, 14 years (2) 27:22;92:21 Yup (1) 68:7	
	W		
	waived (1) 80:21 waiver (8) 62:6;64:20,21,22,24, 25;80:11,15 wake (1) 61:24 walk (3) 30:4;60:15;66:9 walked (1) 36:14 walking (1) 28:7		

10/1/13

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(11) Typically - Yup